CANADIAN PETROLEUM INDUSTRY MONITORING SURVEY

ANNUAL REPORT

Petroleum Monitoring Agency Canada
Agence de surveillance du secteur pétrolier Canada

Canada

CANADIAN PETROLEUM INDUSTRY
1986 MONITORING SURVEY

PETROLEUM MONITORING AGENCY

CANADA

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Petroleum Monitoring Agency Canada
Agence de surveillance du secteur pétrolier Canada

The Honourable Marcel Masse
Minister of Energy, Mines and Resources
Ottawa, Ontario

Dear Minister:

I am pleased to submit the attached report which describes the financial performance of the oil and gas industry in Canada during 1986.

Financial results for the year as a whole reflect the full impact of the dramatic downturn noted in the Agency's Monitoring Survey for the first six months of 1986. Net income declined 190 per cent or $5.5 billion to a loss of $2.6 billion while industry cash flow and net capital expenditures both fell one-third to $7.5 billion and $6.7 billion respectively.

The major factor responsible for the overall decline in the petroleum industry's financial performance was the sharp fall in crude oil prices. This led to large asset write-downs, mainly by Canadian-controlled enterprises, in accordance with the Canadian Institute of Chartered Accountants' new guideline applicable to companies using the full cost accounting method for upstream operations.

Large asset write-downs, like those that occurred in 1986 and 1985, should increase profits in future years by lowering charges for depletion and depreciation. Given today's prices, the early removal of the PGRT and reductions in provincial royalty rates have substantially restored to the 1985 level the profitability of the industry's oil producing operations. However, natural gas in 1987 is still affected by price and export market deterioration.

Respectfully submitted,

George A. Reinecke
Director, Monitoring

July 6, 1987

Canada

NEW AND NOTABLE

Some new information is presented in the 1986 Monitoring Survey and the Report should be read with a number of qualifications.

NEW

- The report has a new Chapter 2, **Sources and Uses of Funds**. While in the past separate chapters were devoted to sources of funds, as reported by companies on a net basis, and uses of funds (formerly chapters 2 and 3), the new chapter presents a consolidation of the industry's overall net sourcing of funds.

- A new guideline issued by the Canadian Institute of Chartered Accountants and applicable to companies using the full cost accounting method was implemented in 1986 by many companies, most of them Canadian-controlled. As the effects of the guideline are referred to repeatedly in this report, a concise explanation of the guideline is presented in Appendix F.

NOTABLE

- The major development during 1986, crucially affecting the petroleum industry's revenues, net income, cash flow, and overall financial performance, was the dramatic decline in crude oil prices, from an average of $33 per barrel in January to an average of $14.60 per barrel in July, stabilizing in the range of $20 to $22 per barrel by the end of the year. This was reflected in a 29% decline of total industry revenues, a $5.5 billion fall in industry net income to a loss of $2.6 billion, and a $4 billion decrease in cash flow.

- Adherence to the new CICA guideline by companies using the full cost method of accounting substantially affected the industry's net income and balance sheet position in 1986. The overall impact was the write-off of $2.4 billion of upstream and foreign assets, representing 2.8% of total industry assets and 4.9% of the assets of Canadian-controlled companies.

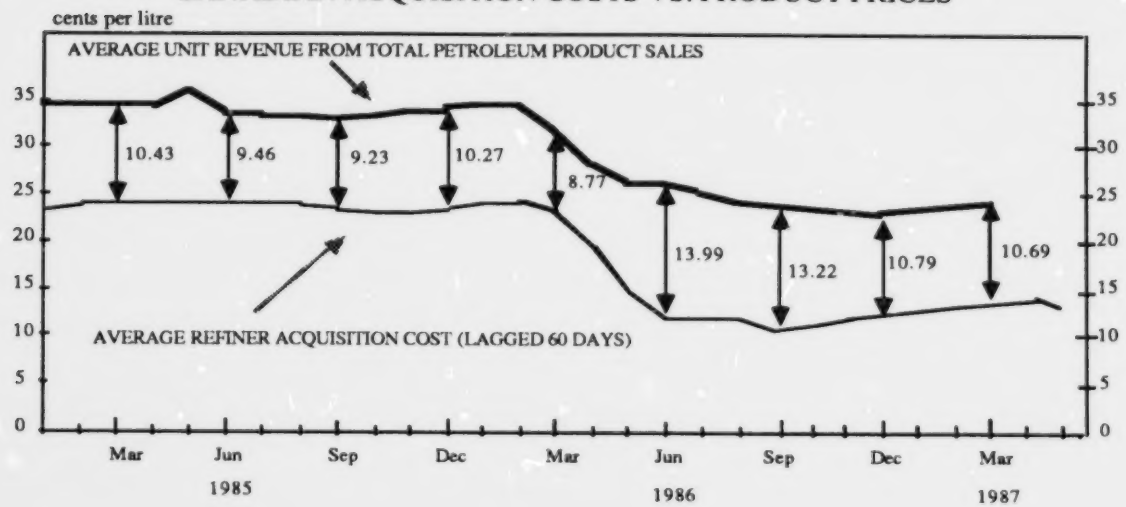
- Comparisons between the results for 1986 and those for 1985 are in certain areas heavily affected by the actions of a <u>few large companies</u>
  - a dividend payment of $500 million was made by one foreign-controlled company in respect of several years of earnings during which no dividends were paid--the timing of this payment being influenced by the deferral of a major capital project
  - another large foreign-controlled enterprise modified its capital structure by establishing debt of almost $500 million with its parent--a reduction in equity of a similar amount was effected through an extraordinary dividend payment.

  These events have a significant impact on certain aspects of the industry's performance and they are therefore emphasized here rather than noted repeatedly in the text.

Continued

- During 1985, a period of relative crude oil price stability, the difference between average product prices (excluding taxes) and average refiner acquisition costs of crude oil ranged from 9 to 10 cents per litre, translating into an average return on capital employed of 1.4% per annum. In early 1986, when crude oil prices declined sharply, product prices fell before high cost product inventories were used up. Thus average margins dropped to a low of 8.77 cents per litre by March 1986. By June 1986, however, margins had not only regained their end-1985 levels, but had surpassed these. This improvement was essentially maintained through the balance of the year, resulting in an average return on capital employed of 6.7% for 1986 as a whole. However, the average rate of return for the most recent five-year period (i.e. to 1986) declined to 3% from 3.7% for the period 1981 to 1985 (Appendix A-10).

CANADIAN ACQUISITION COSTS VS. PRODUCT PRICES



SOURCE: **Energy, Mines and Resources Canada, Oil Branch**

- The Canadian petroleum industry underwent a considerable amount of restructuring in 1986 due to the purchase/sale of assets and the completion of takeovers, some of which were initiated in 1985. Of particular note are the following:
  - Asamera Inc. purchased Unicorp Resources Ltd.
  - Petro-Canada Inc. purchased Gulf Canada's Edmonton refinery
  - Ultramar Canada Inc. purchased Gulf Canada's Quebec and Atlantic downstream assets
  - Norcen Energy Ltd. bought Superior Propane Ltd.
  - Hees International Ltd. purchased a 41% interest in Norcen Energy Ltd.
  - Merland Exploration Ltd. merged with North Canadian Oils Ltd.
  - Ranger Oil Ltd. merged with Canadian and Oriental Oil Ltd.
  - Gulf Canada Ltd. acquired a controlling interest in Hiram Walker Resources Ltd.
  - Interprovincial Pipe Line Ltd. purchased Home Oil Ltd. (a subsidiary of Hiram Walker Resources Ltd.) from Gulf Canada Ltd.

Continued

New and Notable Concluded

- In November 1986 Mobil Oil Canada, Ltd. acquired, from its U.S. parent, all the issued and outstanding shares of Canadian Superior Oil Ltd. for $3 billion. However, this transaction has been treated as if it had occurred in June 1984, when Mobil Corporation first acquired control of Superior Oil Company of Houston (which, in June 1984, was the sole shareholder of Canadian Superior Oil Ltd.). All amounts have been retroactively restated to reflect the continuity of interests.(1)

- On September 8, 1986, the federal government announced that the Petroleum and Gas Revenue Tax (PGRT) would be eliminated effective October 1, 1986, twenty-seven months ahead of schedule. The decision to remove the tax resulted from the deteriorating financial situation of the Canadian petroleum industry following the collapse of oil prices in early 1986.

  The early removal of the tax increased industry cash flow during the last quarter of 1986 by approximately $200 million, and by about $1 billion to the end of 1988, assuming an average oil price of US$15 per barrel. The impact of this increase on the petroleum industry's reinvestment intentions was the subject of a special report by the Agency.(2)

- Appendix A-1 'Year in Review' sets out in detail items worthy of note for 1986 and into 1987.

- Many numbers in the body of the report are rounded to improve readability. Percentage changes, however, are calculated on the basis of detailed figures shown in Appendix B.

- While 131 companies have reported to the PMA (see list on inside back cover), the report is based on 124. Seven companies are excluded due to the lack of comparable data for the preceding year.

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(1) Use of information authorized by the company.
(2) Report on the Early Removal of the Petroleum and Gas Revenue Tax, PMA, May 1987.

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SUMMARY AND HIGHLIGHTS

FINANCIAL PERFORMANCE

TOTAL OPERATIONS

- Profits: Net income from total operations declined 190% or $5.5 billion from a profit of $2.9 billion in 1985 to a loss of $2.6 billion in 1986 due to the collapse in international oil prices. This affected industry results in two ways:

  1. income from current year oil and gas production was sharply lower, as evidenced by a 45% or $4.3 billion decline in upstream cash flow, and
  2. the book value of oil and gas properties in Canada and abroad was written-down to reflect lower prices and lower reserve values in conformity with the new CICA guideline.

  Cash flow generated from operations, unaffected by write-offs, decreased $4 billion (34%) to $7.5 billion.

- Canadian versus Foreign-controlled Companies: Foreign-controlled companies recorded a net income decline of $1.1 billion, to $1 billion in 1986. The decline in the upstream segment more than offset improvements in all other business segments.

  Canadian-controlled companies reported a $4.5 billion decline in net income for a loss of $3.7 billion. The decrease, which occurred in all business segments except for downstream, was four times higher than the profit decline reported by foreign-controlled companies.

- Rates of Return: The combined impact of lower crude oil prices and the application of the new CICA guideline resulted in a negative 7.1% rate of return on shareholders' equity in 1986 compared to a positive 7% in 1985. Return on capital employed in 1986 was minus 0.7% vs. a positive 5.2% in 1985.

SUMMARY AND HIGHLIGHTS (Continued)

UPSTREAM OPERATIONS

- Total upstream revenues fell 40% to $16.9 billion due to the decline in wellhead prices and a 1% decrease in crude oil production. Upstream net income, severely affected by lower prices and write-offs, dropped $4.7 billion to a loss of $1.8 billion. Partly offsetting the fall in revenues were lower production royalties and taxes. The return on capital employed in 1986 was minus 0.9% vs. 7.3% in 1985. Upstream cash flow decreased 45% or $4.3 billion to $5.2 billion.

DOWNSTREAM OPERATIONS

- Total downstream revenues declined 23% to $26.4 billion as lower feedstock costs were reflected in lower product prices. However, net income rose to $805 million from $215 million in 1985, the result of improved profit margins as the rationalization of operations in the refining and marketing sector led to higher capacity utilization and improved productivity. The return on capital employed rose to 6.7% in 1986 from 1.4% in 1985.

SOURCES AND USES OF FUNDS

INTERNAL CASH FLOW

- Internal cash flow from total operations dropped 34% to $7.5 billion in 1986 with major declines of 45% and 36% for upstream and foreign operations respectively more than offsetting an increase of 52% for downstream and a 6% rise for other Canadian operations.

NET EXTERNAL SOURCES

- Net external sources for the industry declined $0.7 billion or 44% to $0.9 billion in 1986. Redemption of long-term debt exceeded new issues while new equity, net of repayments, of $1.5 billion in 1986 compared with $1.4 billion in 1985.

SUMMARY AND HIGHLIGHTS (Continued)

DISCRETIONARY USES

- In 1986, the industry reduced its net capital outlay by 33% to $6.7 billion as a result of the decline in crude oil prices causing a deterioration of prospects for reinvestment. Dividend payments rose $760 million to $2.5 billion. The excess of "All Other Uses" over "All Other Sources" resulted from large purchases of assets from other corporations. The net draw-down of working capital, $2.9 billion in 1986, exceeded the $700 million for 1985.

- PIP Grants: Reporting companies estimated PIP grants at $800 million--down by half from 1985--reflecting the phase-out of the program and a slowing down of exploration activity.

CAPITAL EXPENDITURES

- Total Capital Expenditures in 1986 at $7.8 billion were down 35% from 1985. This was the result of a 32% decline in expenditures in Canada combined with a 61% fall in outlays abroad. Upstream spending, representing 79% of the total, declined 34% to $6.1 billion.

- Exploration Expenditures in Canada: Outlays of $3.2 billion in 1986 were down 35% from $4.9 billion in 1985. Exploration expenditures decreased 33% in the provinces and 37% on the Canada Lands. The latter accounted for 37% of the total in 1986 compared with 39% in 1985. Foreign-controlled companies reduced their outlays by 25% vs. a 39% decrease for Canadian-controlled companies.

- Downstream Expenditures: Downstream outlays fell 16% to $795 million in 1986 vs. 1985. Increased expenditures on petrochemical plants were more than offset by reductions in spending on refineries, pipelines and marketing outlets.

REINVESTMENT RATES

- Net capital expenditures absorbed 89% of the industry's internal cash flow in 1986, up two percentage points from 1985. Upstream capital expenditures totalled 97% of cash flow from upstream operations, up 20 percentage points from 1985.

DIVIDENDS

- Dividends rose 42% to $2.5 billion in 1986. While dividends by Canadian-controlled companies dropped 31% to $570 million, foreign-controlled companies more than doubled their dividend payments to $2 billion. Senior oil and gas producers reported the largest increase in dividend payments, up $915 million to $1.7 billion in 1986.

COMPARATIVE PERFORMANCE: PETROLEUM AND OTHER INDUSTRIES

NET INCOME

- According to Statistics Canada data, the petroleum industry's net income from Canadian operations--exclusive of Crown corporation results--declined from $3.6 billion to a loss of $1.8 billion in 1986, compared with an 11% increase for all other non-financial industries in Canada. However, the petroleum industry's loss for 1986 brought the net income of all non-financial industries down by 24% from the 1985 level.

CAPITAL EXPENDITURES

- The petroleum industry's capital expenditures in Canada decreased 31% in 1986 vs. 1985. Capital expenditures of other non-financial industries increased 13% during the same period with the result that the petroleum industry represented 20% of the total industry in 1986 compared to 30% in 1985.

REVENUE SHARING: INDUSTRY AND GOVERNMENTS

Total revenues available for sharing in 1986 dropped by more than half to $12 billion in 1986. Although the industry's share rose from 54% in 1985 to 69.6% in 1986--largely due to the reduction and subsequent elimination of the PGRT, and lower royalties and taxes--its share in dollar terms dropped $4.8 billion to $8.3 billion.

The federal government's share of available revenues was 4.6% or $560 million, down from 16.2% or $4 billion in 1985. The early elimination of PGRT and lower corporate income taxes were the main reasons for the decline. The provincial governments' share dropped to 25.8% of total revenues in 1986 compared to 29.7% in 1985, mainly as a result of lower royalties and higher tax rebates to the industry in the form of Alberta Royalty Tax Credits.

SUMMARY AND HIGHLIGHTS (Continued)

OWNERSHIP AND CONTROL TRENDS

Canadian ownership of the petroleum industry based on upstream revenues, dropped fractionally in 1986 to 47.7% from 47.9% at the end of 1985. Canadian control of upstream revenues increased 0.5 percentage points to 48.8%. Canadian ownership and control of total petroleum-related revenues--upstream plus downstream--were down 3.2 and 2.6 percentage points in 1986 over 1985 to reach 45% and 40.1% respectively, mainly as a result of the sale of downstream assets by a Canadian-controlled company to a foreign-controlled enterprise.

FIVE-YEAR OPERATING SUMMARY: 1982-1986

Noteworthy trends:

1. Revenues fell by 17% to $47 billion from 1982 to 1986, representing an overall annual rate of decline of almost 5%.

2. Net income, which reached a peak of $3.7 billion in 1984, fell to its lowest point in 1986 with a loss of $2.5 billion.

3. Cash flow in 1986 at $7.4 billion represented about 16% of revenues and compares with the 17% for the two precedent years when revenues were over 50% higher.

4. Capital expenditures, which peaked in 1985 at $10.7 billion, fell to their lowest level in five years at $7.7 billion in 1986.

5. Dividend payments more than doubled to $2.5 billion during the years 1982 to 1986.

ERRATUM

Page 1-1. The Internal Cash Flow line was misaligned in Table 1.

Table 1. OVERVIEW OF TOTAL OPERATIONS[a]

		1985	1986	Increase (Decrease)	
		---------- $ billions ----------			(%)
TOTAL REVENUES		66.4	47.3	(19.1)	(29)
less:	Operating Costs	9.7	9.3	(0.4)	(5)
	Interest Expenses	2.5	2.7	0.2	12
	Non-income Taxes & Royalties	10.8	6.6	(4.2)	(39)
	Other Cash Expenses	28.8	20.2	(8.6)	(30)
	Income Taxes - Federal	2.6	0.9	(1.7)	(65)
	- Provincial	0.5	0.1	(0.4)	(88)
INTERNAL CASH FLOW		**11.5**	**7.5**	**(4.0)**	**(34)**
less:	Write-offs[b]	5.8	6.7	0.9	16
	Deferred Taxes	1.7	-	(1.7)	-
Unusual Gains (Losses)		(1.1)	(3.4)	(2.3)	-
NET INCOME		**2.9**	**(2.6)**	**(5.5)**	**(190)**

NOTES: (a) Figures may not add due to rounding. See Table 5 (page 1-6) for detail by operating segment.

(b) The components of 'write-offs' are non-cash charges and exploration and development expenditures charged to current operations.

1 - FINANCIAL PERFORMANCE

TOTAL OPERATIONS: NET INCOME AND CASH FLOW

Net income from total operations declined 190% or $5.5 billion, from $2.9 billion in 1985 to a loss of $2.6 billion in 1986. This decline was principally the result of the collapse in international oil prices during the first half of 1986 (see page 1-7), which affected industry results in two ways:

- Income from current year oil and gas production was sharply lower, as evidenced by a 45% or $4.3 billion decline in upstream cash flow (see page 1-6).
- The book value of oil and gas properties in Canada and abroad was written-down to reflect lower prices and lower reserve values in compliance with the new CICA guideline.(1)

  These write-downs were reported in 1986 as:

  a) an increase of $0.9 billion in current year charges for upstream depreciation, depletion and amortization, and

  b) one time asset write-offs of $2.4 billion in Canadian and foreign upstream operations.

Partly offsetting these negative factors were lower deferred taxes, down $1.7 billion, and higher downstream profits, up $600 million.

Internal cash flow for total industry, unaffected by write-offs and non-cash charges, fell 34% or $4 billion to $7.5 billion in 1986.

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NET INCOME		**2.9**	**(2.6)**	**(5.5)**	**(190)**

NOTES: (a) Figures may not add due to rounding. See Table 5 (page 1-6) for detail by operating segment.
(b) The components of 'write-offs' are non-cash charges and exploration and development expenditures charged to current operations.

(1) For an explanation of the new CICA guideline, see Appendix F.

a. Net Income by Sector

The 1986 decline in crude oil prices affected Canadian-controlled companies more severely than their foreign-controlled counterparts. Canadian-controlled companies, largely employing the full cost method of reporting, were prompted by the CICA guideline to report large asset write-downs in order to bring the book values of their oil and gas properties in line with lower oil prices. Accordingly, the net income of Canadian-controlled companies declined by $4.5 billion to a loss of $3.7 billion for 1986. In contrast, foreign-controlled companies' net income, although down by half, remained positive at $1 billion.

Canadian-controlled companies reported declines and losses in all business segments except in their downstream operations which reported a $320 million increase in 1986 for a profit of $330 million. Upstream activities, other Canadian operations and foreign activities showed profit declines of $3.2 billion, $600 million and $900 million respectively. Cash flow, unaffected by write-offs declined 48% to $3.2 billion in 1986.

As a result of lower prices, Canadian-controlled companies reported unusual losses of $3.1 billion in 1986 compared to write-offs of $915 million in 1985, reflecting in part the reduced carrying value of Canadian frontier properties and foreign oil and gas assets. Write-downs resulting from the "ceiling test", described in the guideline (see Appendix F), are not treated as extraordinary, but are included mainly as depletion which increased $535 million or 33% in 1986.

Net income of foreign-controlled companies fell 51% to $1 billion in 1986. The decline in upstream income can be attributed to the drop in crude oil prices, higher interest charges, and larger non-cash charges. Downstream net income more than doubled, rising to $475 million, due mainly to higher gross profit margins. Other Canadian operations and foreign activities also recorded improvements. Cash flow of foreign-controlled companies decreased 18% to $4.4 billion.

Table 2. NET INCOME BY SECTOR AND SEGMENT

	1985	1986	Increase (Decrease)	
		$ billions		(%)
CANADIAN-CONTROLLED COMPANIES				
Upstream	0.8	(2.4)	(3.2)	-
Downstream	-	0.3	0.3	-
Other[a]	(0.1)	(1.6)	(1.5)	-
Total Canadian-Controlled	**0.8**	**(3.7)**	**(4.5)**	**-**
FOREIGN-CONTROLLED COMPANIES				
Upstream	2.1	0.6	(1.5)	(70)
Downstream	0.2	0.5	0.3	136
Other[a]	(0.2)	(0.1)	0.1	-
Total Foreign-Controlled	**2.1**	**1.0**	**(1.1)**	**(51)**
TOTAL INDUSTRY	**2.9**	**(2.6)**	**(5.5)**	**(190)**

NOTE: (a) Comprises net income generated by foreign activities and other Canadian operations. For more detail see Appendices A-8 and B-Schedule 1.

b. Rates of Return[1]

Return On Equity

The average rate of return on shareholders' equity for the total Canadian petroleum industry for the five-year period through 1986 fell to 4% from an average return of 7.6% as of December 1985 (Appendix A-10), reflecting the poor results of 1986.

The rate of return on equity was a negative 7.1% in 1986, i.e. for every dollar of equity the industry lost 7.1 cents, compared to a gain of 7 cents per dollar of equity in 1985. However, foreign-controlled companies had a positive 5.8% return on shareholders' equity compared with a negative 18.5% for Canadian-controlled companies.

Return On Capital Employed

The rate of return on the capital employed by the Canadian petroleum industry in 1986 was minus 0.7% vs. a positive 5.2% for 1985. The return on capital employed averaged 4.4% in the five-year period ending in 1986 vs. 6.1% at the close of the 1985 period. Upstream return on capital employed declined to minus 0.9% from plus 7.3% in 1985, in contrast to downstream returns which rose to 6.7% in 1986 from 1.4% in 1985 (Appendix A-10 shows five-year analysis).

Foreign-controlled companies realized a 4.4% return on capital employed for total operations, down from 7.1% in 1985. The upstream segment of this sector saw its return on capital employed reduced from 10.9% in 1985 to 3.9% in 1986.

The Canadian-controlled sector's rate of return on capital employed was minus 4.2% in 1986, down from the positive 3.9% reported in 1985. The rate of return on upstream capital employed was minus 4% vs. plus 5.1% during 1985.

Table 3. RATES OF RETURN BY SECTOR AND SEGMENT

	Canadian-Controlled		Foreign-Controlled		Total Industry	
	1985	1986	1985	1986	1985	1986
	(%)					
RETURN ON EQUITY						
Total Operations	3.6	(18.5)	11.0	5.8	7.0	(7.1)
Canadian Operations	3.6	(15.1)	11.1	5.8	7.1	(5.0)
RETURN ON CAPITAL EMPLOYED						
Total Operations	3.9	(4.2)	7.1	4.4	5.2	(0.7)
Canadian Operations	3.9	(2.7)	7.2	4.4	5.3	0.3
Upstream Operations	5.1	(4.0)	10.9	3.9	7.3	(0.9)
Downstream Operations[a]	(1.8)	5.5	3.2	7.5	1.4	6.7

NOTE: (a) Downstream, in this table, represents oil products operations only, i.e. it excludes petrochemical and other downstream operations.

(1) Rate of return calculations here are derived from data received directly from companies reporting to the PMA. Commentary on the comparability of these rates (Appendix A-10) with those generated using Statistics Canada data (Appendix A-11) can be found in Appendix D-3.

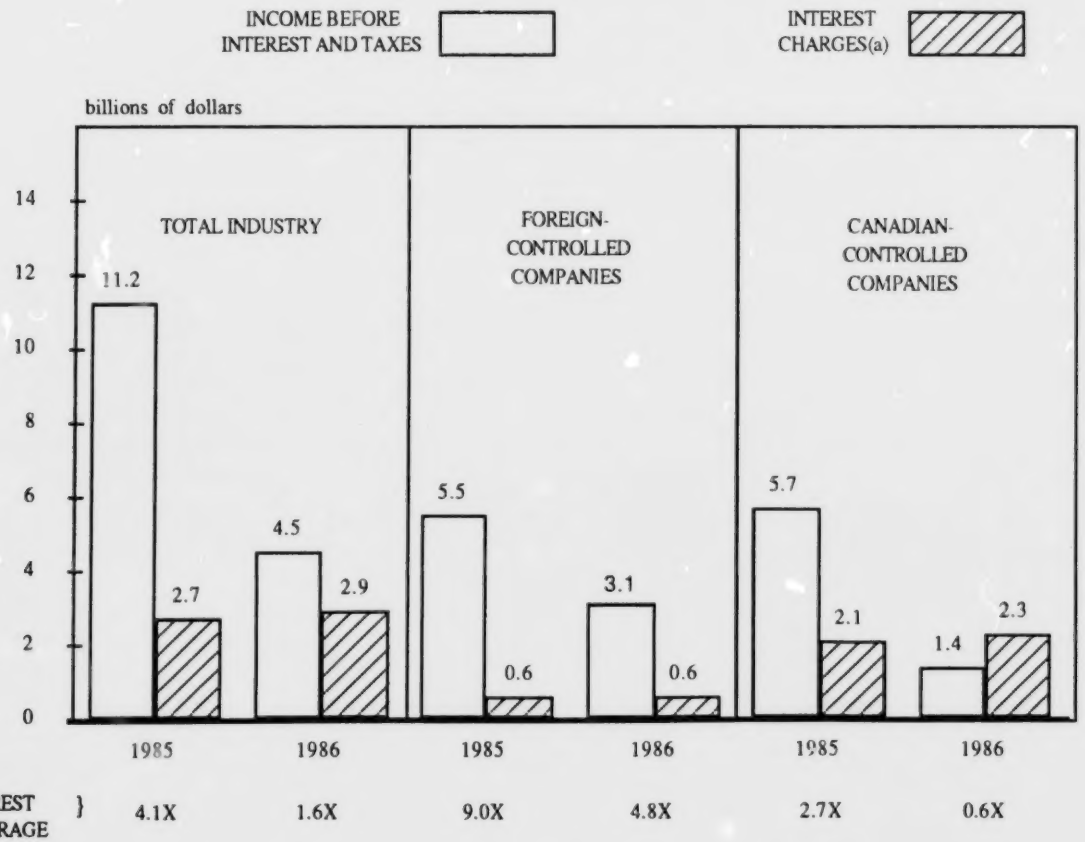
c. Interest Coverage[1]

Income before taxes, extraordinary items and expensed interest was 1.6 times total interest charges, both capitalized and expensed, down from the 4.1 times coverage of 1985. This marked deterioration in coverage was the result of lower crude oil prices, write-downs included in depletion and an increase in overall interest charges.

Net income before taxes and interest for Canadian-controlled companies in 1986 was $1.4 billion or one-fourth of the $5.7 billion recorded in 1985. By contrast, interest charges rose from $2.1 billion in 1985 to $2.3 billion in 1986. Thus the interest coverage declined precipitously from 2.7 times in 1985 to 0.6 times in 1986--in effect, net income before taxes and interest was not able to cover interest charges.

Foreign-controlled companies' interest coverage also moved sharply lower--to 4.8 times in 1986 from 9 times in 1985. However, the dampening effect on upstream income of lower crude oil prices was partly offset by improvements in all other business segments.

Chart 1. COMPARISON OF INTEREST CHARGES WITH INCOME BEFORE TAXES



NOTE: (a) Interest charges shown include both expensed and capitalized amounts. See Appendix A-9 for more detail.

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(1) This analysis of interest coverage relates to total industry activity since there is neither consistency nor uniformity in the way companies allocate interest expenses among the various business segments--upstream, downstream, other Canadian and foreign.

d. Net Income by Company Group

Integrateds and Refiners

A total of 13 companies grouped in the category 'integrateds and refiners' make up almost the entirety of the downstream segment in terms of revenues, and 31% of upstream operations. In 1986, net income for the group rose 79% to $1.1 billion resulting from a fourfold increase in earnings of downstream operations, and a decline of $750 million, compared with 1985, in the amount of extraordinary asset write-offs.

Upstream net income decreased 33% to $455 million in 1986 mainly due to the absence of asset write-offs in 1986, versus write-offs of $680 million in 1985. However, prior to write-offs, upstream net income fell 61%. Similarly, extraordinary losses in the downstream segment were greater in 1985 than in 1986 (Appendix B-Schedule 1).

Oil and Gas Producers

The 111 'oil and gas producers' are active almost exclusively in upstream operations. The large fall in crude oil prices led to a 39% drop in gross upstream revenues to $11.6 billion (Appendix B–Schedule 1). Combined with large asset write-offs, this produced a loss of $3.7 billion in 1986, i.e. net income declined by $6 billion from the 1985 level. Lower production taxes, royalties and income taxes only partly offset the revenue decline. Downstream net income for this group in 1986 was $90 million, up slightly from 1985. Producers' other Canadian operations and foreign activities showed profit declines amounting to $1.5 billion in 1986.

Table 4. NET INCOME BY COMPANY GROUP

	1985	1986	Increase (Decrease)	
	$ billions			(%)
INTEGRATEDS AND REFINERS				
Upstream	0.7	0.5	(0.2)	(33)
Downstream	0.1	0.7	0.6	430
Other[a]	(0.2)	(0.1)	0.1	-
Total Integrateds and Refiners	**0.6**	**1.1**	**0.5**	**79**
OIL AND GAS PRODUCERS				
Upstream	2.2	(2.3)	(4.5)	-
Downstream	0.1	0.1	-	14
Other[a]	(0.1)	(1.6)	(1.5)	-
Total Producers	**2.3**	**(3.7)**	**(6.0)**	**-**
TOTAL INDUSTRY	**2.9**	**(2.6)**	**(5.5)**	**(190)**

NOTE: (a) Comprises net income generated by foreign activities and other Canadian operations. For more detail see Appendix B-Schedule 1.

Table 5. FINANCIAL PERFORMANCE BY SEGMENT[a]

		UPSTREAM				DOWNSTREAM			
		1985	1986	Increase (Decrease)		1985	1986	Increase (Decrease)	
		--- $ billions ---			(%)	--- $ billions ---			(%)
TOTAL REVENUES		28.0	16.9	(11.1)	(40)	34.1	26.4	(7.7)	(23)
less:	Operating Costs	4.9	4.9	-	(1)	3.3	3.2	(0.1)	(3)
	Interest	1.6	1.7	0.1	6	0.2	0.1	(0.1)	(44)
	Royalties, Taxes	6.3	3.1	(3.2)	(51)	2.3	3.0	0.7	28
	PGRT, IORT, NGGLT	2.0	0.4	(1.6)	(78)	-	-	-	-
	Other Expenses	4.6	5.8	1.2	26	27.9	18.6	(9.3)	(33)
INCOME BEFORE TAXES		**8.5**	**1.0**	**(7.5)**	**(88)**	**0.4**	**1.4**	**1.0**	**306**
less:	Current Taxes	3.0	0.8	(2.2)	(74)	0.1	0.4	0.3	232
	Deferred Taxes	1.8	0.1	(1.7)	(97)	(0.1)	-	0.1	-
Unusual Gains (Losses)		(0.8)	(2.0)	(1.2)	-	(0.1)	(0.2)	(0.1)	-
NET INCOME		**2.9**	**(1.8)**	**(4.7)**	**-**	**0.2**	**0.8**	**0.6**	**275**
INTERNAL CASH FLOW[b]		**9.5**	**5.2**	**(4.3)**	**(45)**	**1.1**	**1.6**	**0.5**	**52**

		OTHER CANADIAN OPERATIONS[c]				FOREIGN OPERATIONS			
TOTAL REVENUES		2.6	2.8	0.2	6	1.7	1.3	(0.4)	(28)
less:	Operating Costs	0.9	0.7	(0.2)	(29)	0.6	0.5	(0.1)	(10)
	Interest	0.6	0.9	0.3	56	0.1	0.1	-	(32)
	Other Expenses	1.3	1.5	0.2	15	1.0	1.0	-	9
INCOME BEFORE TAXES		**(0.2)**	**(0.3)**	**(0.1)**	**-**	**0.1**	**(0.4)**	**(0.5)**	**-**
less:	Current Taxes	(0.2)	(0.3)	(0.1)	-	0.1	0.1	-	(40)
	Deferred Taxes	-	-	-	-	-	-	-	-
Unusual Gains (Losses)		(0.2)	(0.8)	(0.6)	-	0.1	(0.4)	(0.5)	-
NET INCOME		**(0.3)**	**(0.8)**	**(0.5)**	**-**	**-**	**(0.8)**	**(0.8)**	**-**
INTERNAL CASH FLOW[b]		**0.3**	**0.3**	**-**	**6**	**0.6**	**0.4**	**(0.2)**	**(36)**

NOTES: (a) Percentage changes reflect unrounded data as shown in Appendix B, Schedule 1.

(b) Internal cash flow is the sum of net income, deferred taxes, non-cash charges of depreciation, depletion and amortization and exploration and development expenditures written off in the reporting period.

(c) Includes pipelines, drilling services, coal and uranium mining, metal mining, and other non-petroleum related activities.

UPSTREAM SEGMENT

Revenues from upstream operations fell 40% to $16.9 billion due to the fall in wellhead prices and a 1% decrease in crude oil production due to declines in older fields, pipeline constraints and increased imports. Only oil sands output was higher in 1986 than in 1985. Natural gas production was down 7% reflecting the 21% drop in export sales (Appendix A-2). A decrease in international sulphur sales was also a factor in declining revenue for several companies.

The average price received for conventional crude oil during 1986 fell 46% to $116 per m^3 from $216 per m^3 in 1985.(1) In January 1986, the wellhead price of oil averaged $33 (US$23.50)/bbl. Six months later, in July, the wellhead price had plummetted, averaging $14.60 (US$10.55)/bbl. Since the autumn of 1986, however, there has been reason for cautious optimism as crude oil prices have stabilized in the range of US$16-18/bbl.

Prices for natural gas declined 16% in 1986 to an average of $79 per 10^3m^3 from $94 per 10^3m^3 in 1985. The average price of gas exported to the United States dropped from $4.05 per gigajoule in 1985 to $3.16 per gigajoule for 1986, mainly due to pressure on prices from the U.S. spot market. The price of natural gas at the Alberta border was $2.80 per gigajoule ($3.00 per MCF) in 1985 and continued at that level until deregulation in November 1986.

Upstream net income dropped $4.7 billion during 1986 to a loss of $1.8 billion due to lower crude oil prices and consequent large asset write-offs. Partly offsetting the fall in revenues were decreases in royalties (down 51%), Petroleum and Gas Revenue Tax (PGRT) payments(2) (down 78%), current income taxes (down 74%) and deferred income taxes (down 98%). Some companies' income were adversely affected by the shut-in of crude oil production related to pipeline capacity constraints and the prorationing system in Alberta.

Canadian-controlled companies reported a $3.2 billion decrease in upstream net income to a loss of $2.4 billion in 1986. Extraordinary write-offs rose from $820 million in 1985 to $1.8 billion in 1986 reflecting the impact of lower product values and the new CICA reporting guideline. For the same reasons, depletion and other non-cash charges were markedly higher. Foreign-controlled companies' upstream profits fell 70% ($1.5 billion) to $625 million. Total cash flow for the upstream segment decreased 45% ($4.3 billion) to $5.2 billion, simultaneously declining as a percentage of gross upstream revenue from 34% to 31%.

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(1) Prior to the June 1, 1985 deregulation of Canadian crude oil pricing and marketing, 'old oil' production received a wellhead price of $187.22 per m^3 ($29.75/bbl.).

(2) PGRT payments declined due to falling crude oil prices, the reduction in rates from 12% to 10%, the exemption of production from specified enhanced oil recovery wells and wells brought on stream after April 1, 1985, and the complete elimination of the tax on October 1, 1986. In addition, on May 1, 1986 the small producer's credit was increased from $500,000 to $2 million and synthetic oil plants were fully exempted from PGRT.

DOWNSTREAM SEGMENT

a. Refining and Marketing

Refining and marketing revenues decreased 22% to $23.6 billion as lower feedstock costs were reflected in lower product prices. The flow through of higher federal sales and excise taxes, up 29% over 1985, offset some of the crude cost-related product price declines. In relation to lagged crude oil acquisition costs, gross margins were 2.1¢/litre higher during the second half of 1986 compared to the first half.

Net income rose in 1986 to $900 million, from $140 million in 1985. This increase resulted from improved gross profit margins of 1.1¢/litre over those experienced in 1985 and from gains on the sale of downstream assets in 1986, reported as negative non-cash charges.

The refining and marketing segment has undergone considerable structural change in the past two years. Takeovers of downstream assets in 1985 and 1986 resulted in the rationalization of operations. The shut down of refineries led to higher capacity utilization and improved productivity. The improvements were partly offset by the elimination of the inventory allowance deduction early in 1986.

Gross profit margins, defined here as the difference between average product sales revenue and cost of goods sold, increased significantly to 6¢/litre in 1986 from 4.9¢/litre in 1985. They improved towards the middle of 1986, and this improvement was maintained throughout the rest of the year. A change of 1¢/litre in gross margins on all products and in all markets, if flowing through entirely to the bottom line, translates into $350 million of after-tax net income, equivalent to 3% in terms of return on capital employed.

Cash flow for Refining and Marketing increased 65% ($545 million) to $1.4 billion in 1986 over 1985.

Table 6. GROSS PROFIT MARGINS: REFINING AND MARKETING

	1985		1986		Increase (Decrease)
	$ millions	¢/litre	$ millions	¢/litre	¢/litre
GROSS SALES	29,794	35.13	23,272	29.02	(6.12)
Other Revenue	409	0.48	352	0.44	(0.04)
TOTAL REVENUE	**30,203**	**35.61**	**23,624**	**29.45**	**(6.16)**
less: Federal Sales and Excise Taxes	2,306	2.72	2,972	3.70	0.99
Cost of Goods Sold	23,732	27.98	15,851	19.76	(8.22)
GROSS PROFIT MARGINS	**4,164**	**4.91**	**4,801**	**5.99**	**1.08**
less: Operating and Other Cash Costs	3,327	3.92	3,417	4.26	0.34
CASH INCOME AFTER CURRENT TAXES	**838**	**0.99**	**1,384**	**1.73**	**0.74**

b. Other Downstream Operations

Net income for other downstream operations, mainly petrochemicals, dropped $170 million to a loss of $90 million in 1986 largely as a result of extraordinary losses of $170 million. Internal cash flow, unaffected by write-offs, increased 6% to $255 million (Appendix B-Schedule 2).

Total revenue for refining and marketing and other downstream operations declined 23% to $26.4 billion. Net income rose to $805 million in 1986 from $215 million in 1985 and cash flow increased 52% ($560 million) to $1.6 billion in 1986 (Table 5, page 1-6 provides further detail).

OTHER CANADIAN OPERATIONS

This business segment, which includes corporate income and expenses, recorded a loss of $800 million in 1986 compared with a loss of $315 million in 1985. The increase resulted from the provision for losses on the redemption of high interest rate debentures by a number of companies. In addition, some companies made a provision for losses due to staff reduction programs. As a result, extraordinary losses for 1986 were reported at $775 million vs. $235 million in 1985. Prior to extraordinary items, net income for 1986 was minus $25 million compared to losses of $80 million in 1985. Cash flow, unaffected by write-offs, rose from $295 million in 1985 to $310 million in 1986.

As noted in previous Monitoring Surveys, many companies treat financing activities, and thus interest expense, as a corporate function--by definition included in 'other Canadian operations'. Although a larger number of companies now allocate interest charges to other segments, 32% of the industry's total interest expenses remained charged to this segment which accounts for only 6% of total industry revenues.

FOREIGN OPERATIONS

Net income on foreign operations declined from $35 million in 1985 to a loss of $850 million in 1986. Foreign activities of Canadian petroleum companies tend to be oil and gas production operations. As in Canada, these activities are affected by the world price of crude oil. Declines in revenues and net income were due to lower oil prices, as well as extraordinary losses of $450 million in 1986, compared with extraordinary gains of $95 million in the previous year. The extraordinary losses in 1986 were mainly related to the application of the new CICA guideline to full cost accounting companies.

2 - SOURCES AND USES OF FUNDS[1]

OVERVIEW

The petroleum industry's funds prior to 'discretionary uses' declined $4.7 billion or 36% to $8.4 billion in 1986. Internal cash flow declined $4 billion while net external sources amounted to $0.9 billion--a decrease of $0.7 billion compared with 1985. Redemptions of long-term debt exceeded new issues as a number of companies paid off debt bearing higher than current interest rates. New equity, net of repurchases, of $1.5 billion in 1986 compared with $1.4 billion in 1985.

In 1986, the industry markedly reduced its net capital outlay by 33% to $6.7 billion as a result of the decline in crude oil prices causing a deterioration of prospects for reinvestment. However, dividend payments rose $760 million to $2.5 billion. The excess of "All Other Uses" over "All Other Sources" resulted from large purchases of assets from other corporations as well as takeover activity. The net draw-down of working capital of $2.9 billion in 1986 helped balance sources of funds with discretionary uses exceeding the $700 million for 1985. Thus the industry overall was a net supplier of funds to other sectors of the economy.

Table 7. SOURCES AND USES OF FUNDS (NET)

	1985	1986	Increase (Decrease)	
	$ billions			(%)
INTERNAL SOURCES				
Net Income Before Unusual Items	3.9	0.8	(3.1)	(81)
Non-cash Items[a]	7.5	6.8	(0.7)	(10)
Internal Cash Flow	**11.5**	**7.5**	**(4.0)**	**(34)**
NET EXTERNAL SOURCES				
New Long-term Debt, Net of Repayments	0.2	(0.6)	(0.8)	-
New Equity, Net of Repurchases	1.4	1.5	0.1	7
Net External Sources	**1.6**	**0.9**	**(0.7)**	**(44)**
Net Sources	**13.1**	**8.4**	**(4.7)**	**(36)**
DISCRETIONARY USES				
Net Capital Expenditures	10.0	6.7	(3.3)	(33)
Dividend Payments	1.8	2.5	0.7	42
All Other Uses, Net of Other Sources	1.9	2.1	0.2	5
Net Uses	**13.8**	**11.3**	**(2.5)**	**(18.1)**
INCREASE (DECREASE) IN WORKING CAPITAL	**(0.7)**	**(2.9)**	**(2.2)**	**-**

NOTE: (a) Includes deferred taxes, exploration and development expenditures written off against current income, and other non-cash items (depreciation, depletion and amortization) that do not require a financial outlay in the reporting period.

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(1) Sources and uses of funds for an individual company are reported to PMA on a net basis. For example, a company raising and repaying debt would report only the net amount. Similarly, companies report only the net amount with regard to changes in equity, in working capital and in 'other sources' and 'other uses' of funds. For the industry as a whole, PMA continues this the process of netting the aggregates to show the industry's net draw of funds from, or net contribution of funds to, other sectors of the economy. However, to allow the reader to distinguish at the aggregate level between new long-term debt and repayment of debt, etc., these aggregates are shown separately on page 2-2.

SOURCES AND USES OF FUNDS (GROSS)

Funds other than internal cash flow continued in 1986 to come from a variety of sources, but were largely offset by related uses. New long-term debt was down $150 million to $1.9 billion and repayment of debt rose 34% or $640 million to $2.5 billion in 1986 from $1.9 billion in 1985. New share issues remained unchanged at $2 billion. Reported individual decreases of working capital totalled $3.8 billion, up from $2.8 billion in 1985, largely the result of takeover activity, financial restructuring and payment of dividends. Increases in working capital amounted to $910 million in 1986 compared to $2.1 billion in 1985. The increase in funds from 'all other sources' of $600 million to $4.6 billion was due to the sale of assets and to inter-company loans.

Gross capital expenditures, the largest component of 'uses of funds', decreased 35% ($4.2 billion) to $7.8 billion (for further detail see page 2-5).

Table 8. SELECTED CATEGORIES OF SOURCES AND USES OF FUNDS[a]

	1985	1986	Increase (Decrease)	
		$ billions		(%)
New Long-term Debt[b]	2.1	1.9	(0.2)	(7)
Repayment of Long-term Debt[d]	1.9	2.5	0.6	34
Long-term Debt, Net	**0.2**	**(0.6)**	**(0.8)**	**-**
New Equity[b]	2.0	2.0	-	1
Repurchase of Equity[d]	0.5	0.5	-	(14)
Net Equity	**1.4**	**1.5**	**0.1**	**7**
Working Capital Decrease[b]	2.8	3.8	1.0	36
Working Capital Increase[d]	2.1	0.9	(1.2)	(57)
Net Working Capital Change	**(0.7)**	**(2.9)**	**(2.2)**	**-**
All Other Uses[e]	5.9	6.7	0.8	13
All Other Sources[c]	4.0	4.6	0.6	12
Net Uses/Sources	**1.9**	**2.1**	**0.2**	**5**
Total Capital Outlays	12.0	7.8	(4.2)	(35)
PIP and Other Incentives	2.0	1.1	(0.9)	(40)
Net Capital Expenditures	**10.0**	**6.7**	**(3.3)**	**(33)**

NOTES:
(a) Appendix B, Schedule 3 shows more detail.
(b) Represents amounts of new long-term debt, new equity, or funds from drawing down working capital by those companies that reported deriving net funds from these sources.
(c) Includes unusual gains; unusual losses are included in 'All Other Uses'.
(d) Represents the net application of funds to repay long-term debt, repurchase equity, or to build up working capital by those companies that reported using funds for these purposes.
(e) Mainly funds for acquisitions of plant and property from other corporations and for corporate takeovers.

INTERNAL CASH FLOW

Petroleum industry internal cash flow fell 34% ($4 billion) to $7.5 billion in 1986 due primarily to lower crude oil prices, reduced production and higher interest charges. The upstream segment recorded a decrease of 45% to $5.2 billion in 1986. By contrast, the cash flow for downstream operations increased 52% to $1.6 billion, largely as a result of improved profit margins. Cash flow of 'other Canadian operations' rose 6% from $295 million in 1985 to $310 million in 1986 while that from foreign activities declined 36% to $365 million.

Canadian-controlled companies' internal cash flow decreased by half to $3.2 billion. Foreign-controlled firms' cash flow was down 18% or $965 million to $4.4 billion, with higher cash flow from downstream and other Canadian operations partly offsetting the lower results of the upstream segment.

Table 9. INTERNAL CASH FLOW BY SECTOR AND SEGMENT[a]

	1985	1986	Increase (Decrease)	
	$ billions			(%)
CANADIAN-CONTROLLED COMPANIES				
Upstream	5.0	2.1	(2.9)	(57)
Downstream	0.5	0.7	0.2	61
Other[b]	0.6	0.3	(0.3)	(55)
Total Canadian-Controlled	**6.1**	**3.2**	**(2.9)**	**(48)**
FOREIGN-CONTROLLED COMPANIES				
Upstream	4.5	3.1	(1.4)	(31)
Downstream	0.6	0.9	0.3	45
Other[b]	0.2	0.3	0.1	108
Total Foreign-Controlled	**5.3**	**4.4**	**(0.9)**	**(18)**
TOTAL INDUSTRY				
Upstream	9.5	5.2	(4.3)	(45)
Downstream	1.1	1.6	0.5	52
Other[b]	0.9	0.7	(0.2)	(22)
TOTAL INDUSTRY	**11.5**	**7.5**	**(4.0)**	**(34)**

NOTES: (a) See Appendix B, Schedule 1 for more detail.

(b) Comprises internal cash flow generated by foreign activities and other Canadian operations.

PETROLEUM INCENTIVES PROGRAM GRANTS

Funds from the Petroleum Incentives Program (PIP) were down by half to $800 million reflecting both a slowing of exploration activity and the phasing out of the program. The program was terminated on March 31, 1986 with the exception of commitments under existing agreements on Canada Lands. Thus, not surprisingly, PIP grants dropped 45% for Canada Lands and 62% for the provinces. Canadian-controlled companies received 97% of these grants.

Table 10. PIP GRANTS BY AREA AND SECTOR

	Canadian-Controlled		Foreign-Controlled		Total	
	1985	1986	1985	1986	1985	1986
	$ millions					
PROVINCES						
British Columbia	22	11	-	-	22	11
Alberta	360	146	-	-	360	146
Other	61	13	-	-	61	13
Total Provinces	**443**	**170**	**-**	**-**	**443**	**170**
CANADA LANDS						
Beaufort Sea	430	194	17	4	447	198
Labrador East	410	283	18	5	428	289
Atlantic Shelf South	156	81	14	12	170	92
Other	95	49	4	6	99	55
Total Canada Lands	**1,091**	**607**	**53**	**27**	**1,144**	**634**
TOTAL CANADA	**1,534**	**777**	**53**	**27**	**1,588**	**804**

NOTE: Appendix A-12 provides additional detail.

CAPITAL EXPENDITURES

Gross capital expenditures in 1986 decreased 35% or $4.2 billion to $7.8 billion as a 32% decline in expenditures in Canada combined with a 61% drop in outlays abroad. The greater rate of decrease in expenditures abroad brought their share of total capital spending to 5% from 9% in 1985. Upstream expenditures remained the largest component of total capital outlays accounting for 79% in 1986 vs. 77% in 1985. All the components of the upstream sector recorded substantial decreases, and those of all other business segments also declined, in aggregate, by a similar percentage.

Table 11. CAPITAL EXPENDITURES[a]

	1985	1986	Increase (Decrease)		Share of Total 1985	Share of Total 1986
	----- $ billions -----			(%)	(%)	
UPSTREAM						
Exploration	4.9	3.2	(1.7)	(35)	41	41
Development	1.5	1.0	(0.5)	(32)	13	13
Production	1.7	1.3	(0.4)	(24)	14	17
Non-conventional[b]	1.1	0.6	(0.5)	(47)	9	8
Total Upstream[c]	**9.3**	**6.1**	**(3.2)**	**(34)**	**77**	**79**
Downstream	0.9	0.8	(0.1)	(16)	8	10
Energy Mining	0.2	0.1	(0.1)	(23)	2	2
All Other	0.5	0.3	(0.2)	(37)	4	4
TOTAL CANADIAN	**10.9**	**7.4**	**(3.5)**	**(32)**	**91**	**95**
EXPENDITURES ABROAD	**1.1**	**0.4**	**(0.7)**	**(61)**	**9**	**5**
TOTAL EXPENDITURES	**12.0**	**7.8**	**(4.2)**	**(35)**	**100**	**100**
PIP grants and other receipts	2.0	1.1	(0.9)	(40)		
NET CAPITAL EXPENDITURES	**10.0**	**6.7**	**(3.3)**	**(33)**		
Memo Item:						
Upstream Capital Expenditures (Net of PIP grants and other receipts)	7.3	5.1	(2.2)	(31)		

NOTES: (a) More detail is presented in Appendix B, Schedules 4 and 5.

(b) Includes oil sands and non-conventional heavy oil projects.

(c) Includes PIP grants.

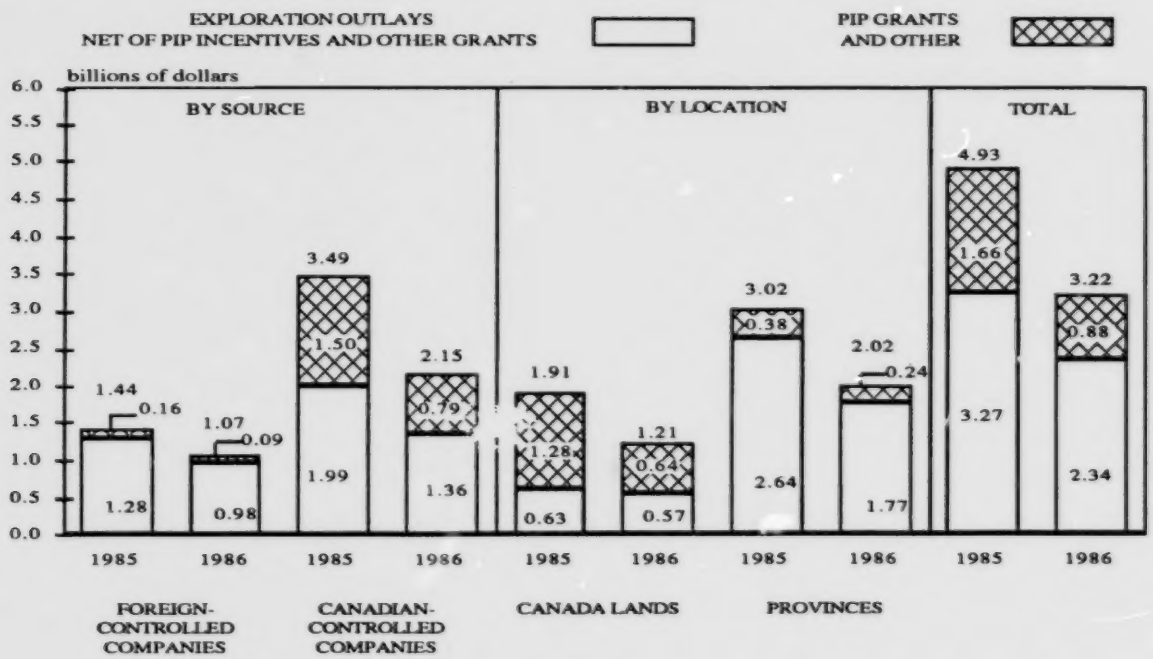
Upstream: The plunge in world oil prices resulted in a 34% reduction in upstream capital expenditures which totalled $6.1 billion in 1986 compared to $9.3 billion in 1985. Drilling rig utilization[1] in Western Canada fell to as low as 11% by mid-year prior to being coaxed upward during the latter part of the year by the early elimination of the PGRT, firming prices, and provincial incentive programs. Spending in all categories of upstream activity declined.

Net of PIP and similar incentive grants, upstream outlays by Canadian-controlled companies declined 32% and those of foreign-controlled companies decreased 30%. Despite their higher rate of decline, the Canadian-controlled group of companies maintained spending at a higher level than foreign-controlled firms (Appendix B-13).

Exploration outlays by foreign-controlled companies were off 25% in 1986 versus a 39% decline for Canadian-controlled firms. Canadian-controlled companies accounted for 85% of frontier activity and 67% of total exploration spending.

Exploration expenditures in the provinces fell 33% to $2 billion and decreased 37% to $1.2 billion on Canada Lands. This produced a decrease of 35% in total exploration spending to $3.2 billion. Expenditures on Canada Lands accounted for 37% of the total, down two percentage points from 1985. Large decreases in spending on Canada Lands occurred in Beaufort Sea ($235 million), Labrador East ($230 million) and Atlantic Shelf South ($195 million) (Appendix A-14).

Chart 2. EXPLORATION EXPENDITURES IN CANADA



Downstream Expenditures: Downstream outlays decreased 16% to $795 million in 1986 vs. 1985. Increased expenditures on petrochemical plants were more than offset by declines in spending on refineries, pipelines and marketing outlets.

Energy Mining and All Other: Expenditures were lower in all other areas including those for mining facilities, drilling ships, caissons, and drilling rigs. This category also includes capitalized interest charges related to pre-start-up project expenditures.

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(1) SOURCE: **Canadian Association of Oilwell Drilling Contractors**

REINVESTMENT RATES

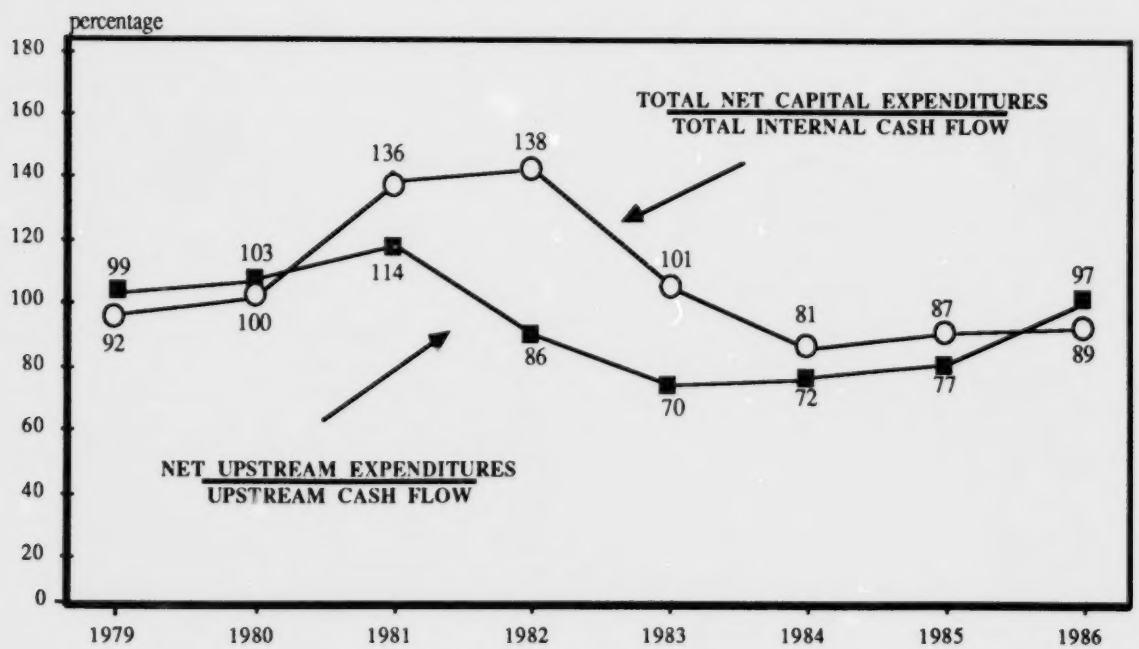
The overall reinvestment rate for the petroleum industry--i.e. total net capital expenditures[1] as a percentage of internal cash flow from all business segments--increased marginally by two percentage points to 89% in 1986. Lower oil prices led to the 33% decrease in net capital expenditures which trailed only marginally the 34% reduction in cash flow.

The two percentage points rise in the reinvestment rate for the entire industry masks large differences in the results for the Canadian- and foreign-controlled companies. The latter group reported a 9 percentage point decline in the total reinvestment rate to 73% in 1986 based on a 27% decline in total net capital expenditures against an 18% decrease in cash flow (increases in downstream and other Canadian operations' cash flow partly offset large declines in upstream). By contrast, the 48% cash flow decline for Canadian-controlled companies, with a 38% decrease in net capital expenditures, produced a 19 percentage point increase in the reinvestment rate to 110% in 1986.

A comparison of the two groups related to upstream activities gives similar results, with Canadian-controlled companies reinvesting 121% of upstream internal cash flow (up 45 percentage points) vs. 80% for foreign-controlled firms (up two percentage points).

Upstream capital expenditures (net of PIP grants) accounted for 97% of upstream cash flow, up 20 percentage points from 1985, as upstream cash flow and net upstream expenditures fell 45% and 31% respectively.

Chart 3. REINVESTMENT RATES



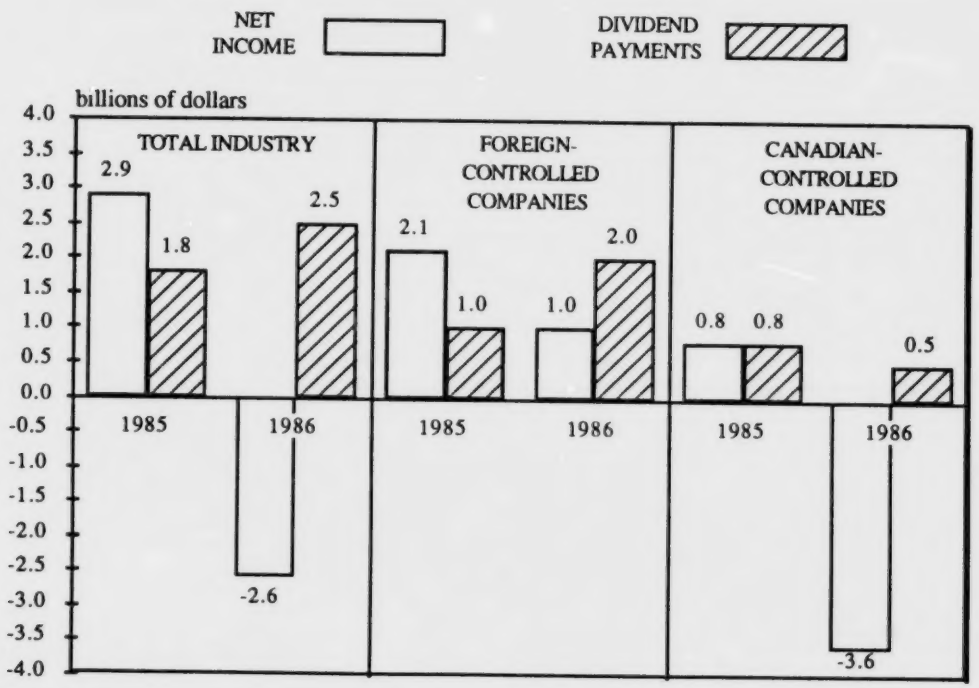
(1) Net capital expenditures is defined as capital expenditures less PIP grants, similar incentives and insurance receipts.

DIVIDEND PAYMENTS

Dividend payments by the petroleum industry rose 42% to $2.5 billion in 1986 while net income declined $5.5 billion as a result of lower oil prices and extraordinary asset write-offs by Canadian-controlled companies. Higher dividends were paid by a number of foreign-controlled companies who had either not paid dividends in previous years or used dividend payments in conjunction with financial restructuring (described further in New and Notable).

Dividend payments by Canadian-controlled firms decreased 31% to $570 million while those paid by foreign-controlled companies doubled to $2 billion. The largest increase in dividend payments was recorded for the group of senior oil and gas producers--up $915 million to $1.7 billion in 1986.

Chart 4. DIVIDEND PAYMENTS COMPARED WITH NET INCOME



3 - COMPARATIVE PERFORMANCE: PETROLEUM AND OTHER INDUSTRIES

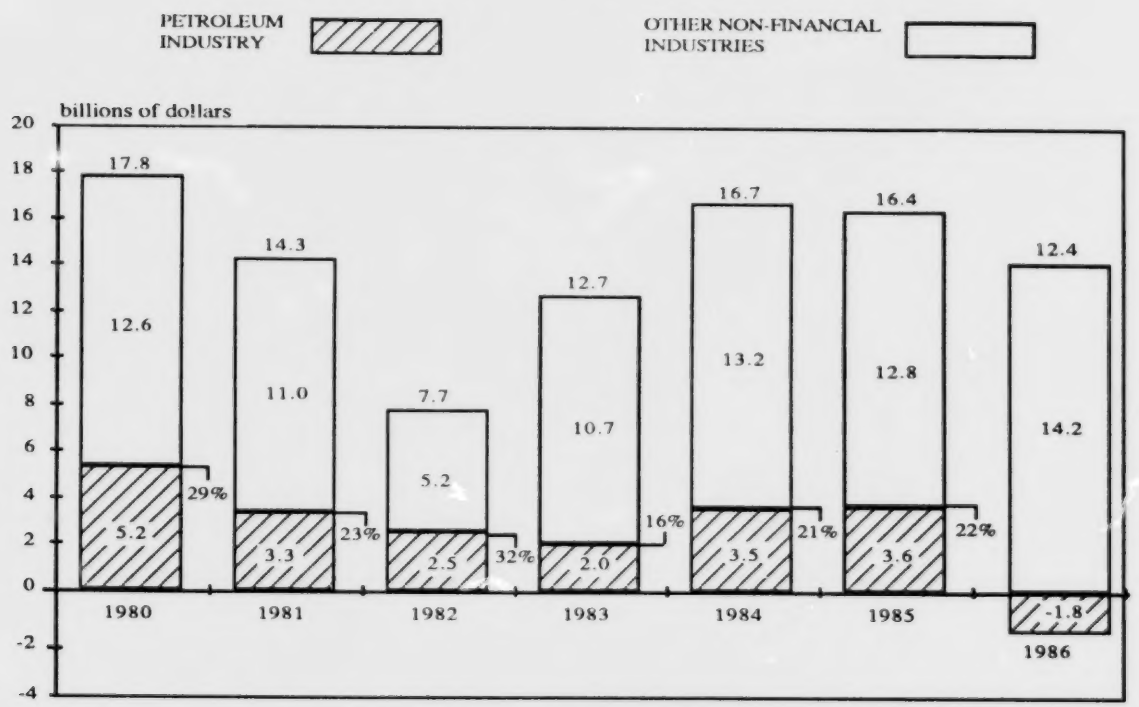
NET INCOME COMPARISON

Additional insight into the financial performance of the petroleum industry is gained by comparison with other sectors of the economy using data from Statistics Canada.(1)

Exclusive of Crown corporations, the petroleum industry's net income on Canadian operations after extraordinary items declined from $3.6 billion to a loss of $1.8 billion in 1986, in sharp contrast to an 11% increase in profits for all other non-financial industries. Chart 5 shows that while the petroleum industry contributed $3.6 billion or 22% to the total net income in 1985, its loss for 1986 brought the net income of all non-financial industries down to $12.4 billion, i.e. an overall decrease of 24%.

Return on shareholders' equity for the petroleum industry of a negative 5.2% after extraordinary items represents a large decrease compared to the return of 9.5% in 1985 and differs significantly from the 9.7% return for all other non-financial industries in 1986. The rate of return on capital employed for the petroleum industry was minus 0.2% vs. 7.5% for all other non-financial industries (Appendix A–11).

Chart 5. COMPARISON OF NET INCOME--PETROLEUM INDUSTRY VS. ALL OTHER NON-FINANCIAL INDUSTRIES



(1) The data given in this section of the report are not precisely comparable with those presented elsewhere although they are close to the results based on the PMA survey and reported in Chapters 1 and 2. Petroleum industry data from Statistics Canada, while covering a greater number of companies than the PMA survey, exclude government business enterprises as well as the foreign activities of companies originating in Canada. The PMA survey covers the global activities of petroleum companies operating in Canada, including Crown corporations, over a minimum size in terms of assets and revenues.

CAPITAL EXPENDITURES

Based on Statistics Canada data, petroleum industry gross capital expenditures (i.e. before deducting PIP grants) decreased 31% in 1986 from 1985 (Table 12), primarily due to the decline in crude oil prices. Capital expenditures of other non-financial industries increased 13% largely as a result of greater strength in manufacturing and other non-financial sectors more than offsetting declines in expenditures for mining. Accordingly, the capital expenditures of the petroleum industry as a proportion of total capital expenditures of all non-financial industries decreased by ten percentage points to 20% in 1986.

Table 12. COMPARISON OF CAPITAL EXPENDITURES--PETROLEUM INDUSTRY VS. ALL OTHER NON-FINANCIAL INDUSTRIES

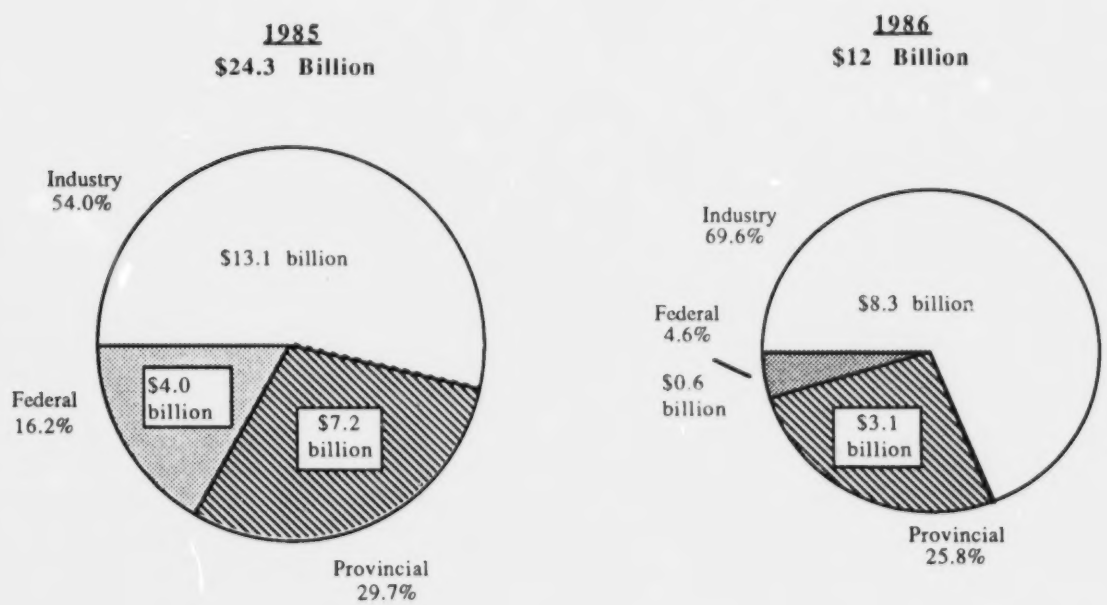
		1985	1986	Increase (Decrease)	
		------ $ billions ------			(%)
1.	Manufacturing	8.5	10.5	2.0	23
2.	Mining	1.6	1.4	(0.2)	(9)
3.	**Other Non-Financial**	**14.2**	**15.6**	**1.4**	**10**
4.	**TOTAL NON-FINANCIAL** excluding Petroleum	**24.3**	**27.5**	**3.2**	**13**
5.	Petroleum	10.3	7.1	(3.2)	(31)
6.	**TOTAL NON-FINANCIAL** including Petroleum	**34.6**	**34.6**	-	-
7.	Line 5 as a % of line 6	29.7	20.5		

SOURCE: Statistics Canada, 61-003, **Industrial Corporations - Financial Statistics**. This survey does not include government enterprises. Expenditures are gross, including PIP and other capital grants.

4 - REVENUE SHARING: INDUSTRY AND GOVERNMENTS

Revenues available for sharing[1] in 1986 dropped by more than half to $12 billion, the lowest level since 1980. The precipitous decline in crude oil prices had a severely dampening effect on the value of upstream production, sharply reducing industry cash flow and government take. The Western Accord was instrumental in the phasing out and final elimination of several federal taxes and charges. As a result, the federal government's share in percentage terms declined dramatically from 16.2% in 1985 to 4.6% in 1986, while the industry's share of the much smaller pie increased from 54% to 69.6%. The provincial share decreased to 25.8% in 1986 from 29.7% in 1985.

Chart 6. REVENUE SHARING: INDUSTRY AND GOVERNMENTS



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(1) Revenue available for sharing =
- Upstream Gross Revenues
- Operating Costs
- Oil Export Charge
- Canadian Ownership Charge
- Change in PCC Account
- = Total Revenues Available for Sharing

Revenue shares are estimated for the entire upstream industry and are not limited to PMA reporting firms. Figures for revenue sharing components not directly related to upstream operations were obtained from Energy, Mines and Resources Canada, Statistics Canada and provincial governments.

Table 13. REVENUE SHARING: INDUSTRY AND GOVERNMENTS

	Revenues 1985	Revenues 1986	Increase (Decrease)	
	$ billions			(%)
INDUSTRY SHARE				
Internal Cash Flow (before interest)	$12.73	$7.84	$(4.89)	(38)
PIP and Other Incentives Grants	1.75	1.01	(0.74)	(42)
Land Payments to Crown	(1.33)	(0.49)	0.84	63
Total Industry Share[a]	**13.15**	**8.36**	**(4.79)**	**(36)**
PROVINCIAL SHARE				
Royalties and Freehold Tax[b]	5.73	3.14	(2.59)	(45)
Land Payments	1.32	0.49	(0.83)	(63)
Corporate Income Tax[c]	0.47	(0.20)	(0.67)	-
Oil Export Charge	0.17	-	(0.17)	-
PIP and Other Incentives Grants Paid	(0.50)	(0.34)	0.16	32
Total Provincial Share	**7.19**	**3.09**	**(4.10)**	**(57)**
FEDERAL SHARE				
PGRT	2.27	0.47	(1.80)	(79)
Corporate Income Tax	2.54	0.76	(1.78)	(70)
Canadian Ownership Charge	0.49	-	(0.49)	-
Oil Export Charge	0.17	-	(0.17)	-
Net Petroleum Compensation[d]	(0.27)	-	0.27	-
Land Payments	0.01	-	(0.01)	-
PIP Grants Paid	(1.26)	(0.67)	0.59	47
Total Federal Share	**3.95**	**0.56**	**(3.39)**	**(86)**
GRAND TOTAL	**24.29**	**12.01**	**(12.28)**	**(50)**

NOTES: (a) To cover interest payments, capital amortization, return on capital and net capital expenditures.

(b) Data obtained from provincial sources. Figures reflect actual royalty payments made during the year. Thus, they are exclusive of credits claimed by companies against royalties by virtue of provincial incentive schemes. Indian and freehold royalties and royalties paid to freeholders are excluded.

(c) Net of rebates, from provincial governments, such as the Alberta Royalty Tax Credit (ARTC).

(d) Revenue accruing to the Government of Canada less amounts required to finance oil import compensation, production qualifying for the New Oil Reference Price (NORP), Special Old Oil Price (SOOP), deliveries of Canadian crude to Atlantic Canada and certain exchanges of crude oil between Canada and the United States.

INDUSTRY SHARE

The industry's share of revenues rose in 1986 to 69.6% of the total available for sharing, from 54% in 1985. However, in absolute terms, industry's share was seriously reduced as internal cash flow before interest fell 38% or $4.9 billion while PIP and other incentive grants were down 42% or $740 million. As a result of the lower crude oil prices, land payments in 1986 fell to $490 million, reflecting a drop of 63% from the 1985 level of $1.3 billion--the lowest figure in ten years.

PROVINCIAL SHARE

Provincial revenues from petroleum producing operations were 25.8% of total revenues available for sharing in 1986 compared to 29.7% in 1985. The largest component, royalties, affected by the lower crude oil prices and royalty rate reductions, declined by nearly half to $3.1 billion in 1986. The average rate of provincial royalty and freehold tax, as a percentage of upstream production revenues, declined from 19.4% in 1985 to 16.9% in 1986. This was the result of reductions in royalty and tax rates and royalty holiday programs introduced during 1985 and 1986 by Alberta, British Columbia and Saskatchewan. Alberta received $2.7 billion from this source, Saskatchewan $0.3 billion and British Columbia $0.1 billion. Corresponding figures for receipts for land payments were $390 million, $23 million and $72 million respectively. Corporate income taxes dropped from $470 million in 1985 to a negative $200 million in 1986 as a result of significantly lower profits combined with an increase of approximately $75 million in tax rebates paid to the industry in the form of Alberta Royalty Tax Credits.

FEDERAL SHARE

The federal revenue share in 1986 was almost wiped out, dropping $3.4 billion or 86% to a low of $560 million in 1986 from $4 billion in 1985. PGRT revenue shrank by 79% or $1.8 billion from the 1985 level as a result of the phasing out of the tax at the beginning of 1986 and its elimination as of October 1, 1986. Because of greatly reduced profits, corporate income tax collection generated $760 million in revenues in 1986 compared to the more than $2.5 billion collected for 1985. In addition, the Western Accord resulted in the elimination of a number of revenue sources, while payments under the Petroleum Incentives Program were being phased out.

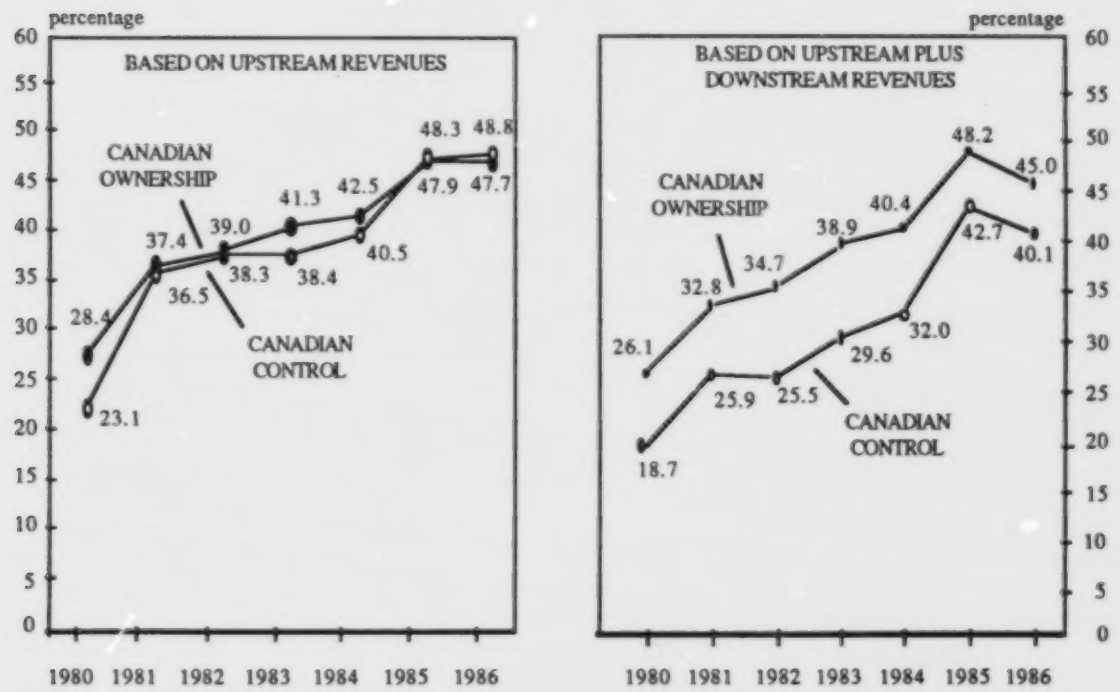
5 - OWNERSHIP AND CONTROL TRENDS

Changes in the level of Canadian ownership and control of the petroleum industry in 1986 were slight in terms of upstream revenues alone, but notable for all petroleum-related activities, principally due to losses in the downstream segment.

Canadian ownership of upstream revenues was 47.7% in 1986, down fractionally from 47.9% in 1985, while control of upstream revenues increased 0.5 percentage points from 48.3% in 1985 to 48.8% in 1986.

Canadian ownership of upstream plus downstream revenues, however, declined 3.2 percentage points to 45% in 1986, with Canadian control of the combined revenue stream falling 2.6 percentage points to 40.1%, mainly as a result of the sale of downstream assets by a large Canadian-controlled company. A portion of these assets was acquired by a foreign-controlled enterprise.

Chart 7. CANADIAN OWNERSHIP AND CONTROL OF THE PETROLEUM INDUSTRY



The divestment by a large Canadian-controlled company of its downstream operations, and its resulting reclassification from an integrated company to a senior producer, reflected itself in the divergent movement in the ownership and control data for the industry's two main groups:

- Canadian ownership of the integrateds and refiners category dropped 7.1 percentage points to 41.8%, based on combined upstream plus downstream revenues, while Canadian control fell 6.1 percentage points to 31.7%. In terms of upstream revenues only, there were decreases of 10.9 and 13.2 percentage points in Canadian ownership and control, respectively.

- Canadian ownership of the oil and gas producer category, increased from 46.7% in 1985 to 53.2% in 1986, with regard to petroleum-related revenues as a whole, while Canadian control moved from 55.3% to 61.6%. In terms of upstream revenues alone, Canadian ownership increased from 45.7% to 51%, and Canadian control from 54.4% to 59.6%.

Additional information on ownership and control trends in the Canadian petroleum industry is provided in Appendix A-17.

Table 14. OWNERSHIP AND CONTROL BY COUNTRY AND SECTOR[a]

	Ownership		Control	
	1985	1986	1985	1986
	(%)		(%)	
United States	40.3	40.2	42.8	42.3
Other Foreign	11.5	14.8	14.4	17.5
TOTAL FOREIGN	**51.8**	**55.0**	**57.3**	**59.9**
Canadian Public Sector	13.6	16.0	14.9	15.6
Canadian Private Sector	34.7	29.0	27.8	24.5
TOTAL CANADIAN	**48.2**	**45.0**	**42.7**	**40.1**

NOTE: (a) Based on upstream plus downstream ('petroleum-related') revenues using ownership data as at year-end 1986

6 - FIVE-YEAR OPERATING SUMMARY: 1982-1986

Information drawn from five years of petroleum monitoring surveys provides a basis for comparing a number of financial performance characteristics of the oil and gas industry over the period 1982-86. To provide users of this survey with some additional perspective--even recognizing the distortions induced by inflation--Table 15 presents aggregate data for 111 companies reporting to the Petroleum Monitoring Agency, for which consistent statistics are available over the five years. Detailed operating data for this aggregation, representing practically 100% of the PMA's 1986 data base in terms of revenues, are shown in Appendix B, Schedules 9 and 10.

Table 15. FIVE-YEAR OPERATING SUMMARY: 1982-1986

	1982	1983	1984	1985	1986
			$ billions		
REVENUES					
Total Operations[a]	57.0	59.1	62.9	66.0	47.1
Upstream	21.0	23.9	26.4	27.6	16.7
Downstream	31.3	30.7	31.9	34.1	26.4
NET INCOME					
Total Operations[a]	1.8	1.5	3.7	2.8	(2.5)
Upstream	2.1	2.5	3.1	2.9	(1.7)
Downstream	0.4	(0.1)	0.4	0.2	0 8
INTERNAL CASH FLOW					
Total Operations[a]	7.4	8.6	10.5	11.3	7.4
Upstream	5.8	7.3	8.3	9.3	5.1
Downstream	1.3	0.8	1.1	1.1	1.6
CAPITAL EXPENDITURES					
Upstream	6.4	6.8	7.8	9.1	6.0
Downstream	2.2	1.6	0.9	0.8	0.7
Other	1.9	1.2	0.9	0.9	0.5
Total in Canada	**10.5**	**9.6**	**9.6**	**10.7**	**7.2**
Expenditures Abroad	**1.1**	**0.7**	**0.6**	**1.1**	**0.4**
TOTAL CAPITAL OUTLAYS	**11.6**	**10.3**	**10.2**	**11.8**	**7.7**
DIVIDEND PAYMENTS	1.1	1.3	1.3	1.8	2.5
			(%)		
TOTAL REINVESTMENT RATES[b]	138.4	100.7	80.3	87.1	88.2
UPSTREAM REINVESTMENT RATES[b]	85.8	69.8	71.5	76.7	95.9
GDP DEFLATOR	100.0	104.9	108.7	112.4	115.5

NOTES: (a) Includes 'other Canadian' and foreign operations.

(b) For definitions see notes a and b, Appendix A-15.

NOTEWORTHY TRENDS

Since the 1982-86 period was marked by varying annual rates of inflation as reflected by the GDP deflator in Table 15, unrefined comparisons could distort underlying real trends. On the other hand, adjustment for inflation cannot simply apply constant dollar factors to major income and cost components without elaborate explanations. These would be inappropriate in this survey, however, and have not been attempted.

The trends noted below, therefore, have been confined to those indicated in terms that are unadjusted for inflation.

1. Revenues fell by 17% to $47 billion from 1982 to 1986--representing an unprecedented average annual rate of decline of approximately 4.7% over the five-year period. The 29% total revenue decrease in 1986 vs. 1985 resulted from the precipitous decline in crude oil prices commencing at the beginning of the year, coupled with a moderate decline in the volume of crude oil and natural gas production. This was in sharp contrast to the period through 1985, when higher wellhead prices for oil and natural gas fueled the growth in the upstream segment, which in turn provided the impetus for the growth in overall revenues. In addition, production of crude oil and natural gas liquids had climbed steadily to an historic high in 1985.

2. Net income moved negative in 1986 to a loss of $2.5 billion after reaching a peak of $3.7 billion, or 5.8% of revenues in 1984. The 1986 loss is largely attributable to the major crude oil price decline experienced during the year, coupled with a large increase in asset write-offs to $3.4 billion in 1986. In 1983 the relationship of net income to revenues was also low, because of large write-downs of assets by one large Canadian-controlled company and the disappearance of downstream profits. Upstream profits, which had reached a high of 11.7% of upstream revenues in 1984, declined to a loss of $1.7 billion in 1986.

3. Internal cash flow decreased as a percentage of revenue -- from a high of 17.1% in 1985 to 15.8% in 1986. Upstream internal cash flow amounted to 31% of 1986 upstream revenues vs. 34% in 1985. Downstream cash flow increased sharply in 1986 to a five-year high of $1.6 billion or 6.1% of downstream revenues, compared with 3.2% in 1985.

4. Capital expenditures were at a five-year low in 1986 in all categories after having peaked in 1985. Upstream capital expenditures, at their highest level of $9.1 billion in 1985, accounted for 75% or $3.1 billion of the overall capital expenditure decline during 1986.

5. Reinvestment rates were abnormally high in 1982 and 1983 due to heavy expenditures in downstream and other Canadian activities, bottomed out in 1984, and moved slightly higher again in 1985. The rate for 1986 was fractionally above that of the previous year, as both capital expenditures and internal cash flow declined in approximately the same proportions.

6. Dividend payments more than doubled to $2.5 billion from 1982 to 1986, with payout ranging from 87% of earnings in 1983 to 35% in 1984, and averaging 64% in 1985. While dividends rose steadily between 1982 and 1985, the wide swings in the payout ratio were mainly due to fluctuations in net income after extraordinary write-offs. In 1986, despite the substantial declines in revenues and net income, dividend disbursements increased to a high of $2.5 billion, while industry earnings declined to a loss of $2.5 billion.

APPENDICES

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YEAR IN REVIEW

1986 Jan - International and Canadian crude oil prices commenced a sharp decline. Average Canadian price dropped to less than $33/bbl.

Feb 7 - The Governments of Canada and Newfoundland introduced Bills to implement the Atlantic Accord respecting oil and gas resource management and revenue sharing. Average Canadian crude oil price fell to $22.20/bbl.

Apr 1 - Alberta announced enhancement of its Royalty Tax Credit Program (95%, up from 75% of crown royalties payable may now be credited against provincial income tax), and the creation of the Exploratory Drilling Assistance Program which permits a credit of 50% of exploration costs against Alberta crown royalties.

Apr 30 - Amendments to the Petroleum and Gas Revenue Tax increased the small producer credit from $500,000 to $2 million and granted a zero rate of tax to the Syncrude and Suncor oil sands plants for the remainder of the year.

Jul - Average Canadian crude oil price reached a low of $14.60/bbl.

Aug 26 - The Governments of Canada and Nova Scotia signed the Nova Scotia Offshore Petroleum Resources Accord.

Sep - The Canadian Institute of Chartered Accountants issued a Guideline respecting the application of the full cost method of accounting for oil and gas exploration, development and production activities effective for full years ending after September 1986.

Sep 8 - The Petroleum and Gas Revenue Tax was terminated effective October 1, 1986. The Petroleum Monitoring Agency was charged with providing periodic reports to the federal government on reinvestment behaviour over the next two and a half years.

Oct 29 - Alberta announced royalty rate reductions on oil and gas discovered before 1974 averaging 2 percentage points; royalties on such production are now 31% for oil and 25% for gas. Royalty rates on oil and gas discovered since 1974 dropped an average of 4 percentage points to 23% and 19% respectively. Zero royalty rates or 'holidays' are now prescribed for production from wells spudded between October 1986 and November 1989 for diminishing periods not exceeding five years from the prior date depending on when drilling commenced. In addition, the Alberta Royalty Tax Credit program for small producers was enriched by $75 million in 1987.

Nov 1 - The Governments of Canada, Alberta, British Columbia, and Saskatchewan withdrew from administering interprovincial natural gas prices.

Dec - A Canadian National Energy Board report foresees Canada becoming increasingly reliant on offshore oil supplies. Average Canadian crude oil price exceeded $19/bbl. for the first time since February 1986.

Dec - Saskatchewan introduced a price sensitive royalty rate structure resulting in reduced royalties while prices are low, and a flat royalty of 1% for wells producing below 5 barrels (0.8 cubic metres) per day. Royalty 'holidays' of three years were granted to production from new wells.

1987 Mar 25 - The Government of Canada announced the Canadian Exploration and Development Incentive Program, designed to provide $350 million a year in direct assistance to the petroleum industry.

May 28 - The Petroleum Monitoring Agency released a report concluding that additional industry cash flow resulting from early removal of the Petroleum and Gas Revenue Tax will be used as intended to increase capital expenditures and maintain employment, rather than to raise dividends or other payouts to shareholders.

Jun 18 - The Minister of Finance tabled a white paper on tax reform. Under the proposals, the petroleum industry's average tax rate would fall slightly due to lower corporate tax rates despite the elimination of the earned depletion deduction on oil sands and enhanced recovery projects. The Canada Exploration and Development Incentive program is to be phased out by 1989.

Appendix A-2

PETROLEUM AND NATURAL GAS SUPPLY AND DEMAND SUMMARY[a]

			1985	1986	Increase (Decrease)
PETROLEUM[b]			(thousands m^3/day)		(%)
Production	-	Crude Oil	250	250	-
	-	Natural Gas Liquids[c]	38	36	(6)
	-	**TOTAL PRODUCTION**	**288**	**286**	**(1)**
Net Exports[d]	-	Crude Oil	32	37	15
	-	Natural Gas Liquids	18	13	(17)
	-	Refined Products	12	5	(58)
	-	**TOTAL NET EXPORTS**	**62**	**55**	**(11)**
Consumption	-	Natural Gas Liquids	31	29	(6)
	-	Refined Products	226	226	-
	-	**TOTAL CONSUMPTION**	**257**	**255**	**(1)**
NATURAL GAS			(millions m^3/day)		(%)
Production			212	198	(7)
Net Exports			72	57	(21)
Consumption			140	141	1
NEB Export Authorization			146	152	4

NOTES: (a) Figures represent total industry activity and are derived from a number of sources:

Production	-- Statistics Canada (Catalogue 26-006)
Net Exports	-- EMR Oil Supply Branch
Consumption	-- Statistics Canada (Catalogue 45-004)

(b) Petroleum includes conventional and synthetic crude oil and natural gas liquids (propane, butane and ethane) derived from gas plants and gas reprocessing plants. Data on the production, net exports and consumption do not represent a complete supply/demand balance as industry's own use and stock changes are not shown.

(c) Does not include refinery production of 8.6 thousand m^3/d in 1986 and 7.6 thousand m^3/d in 1985.

(d) On a gross basis, petroleum imports (including exchange receipts) for 1985 and 1986 were 45,800 m^3/d and 56,700 m^3/d (288,200 b/d and 356,800 b/d) respectively, or 18% and 22% of domestic consumption in those periods.

CANADIAN NATURAL GAS PRICES: 1974-1987

	Field Gate Including Export Flow Back	Alberta Border	Toronto City Gate	Weighted Ontario Sales Realization	Ontario Market		
					Residential	Commercial	Industrial
	$ per Gigajoule						
1974	...	0.28	0.55	0.83	1.26	0.94	0.64
1975	...	0.53	0.82	1.13	1.56	1.21	0.94
1976	0.98	0.84	1.24	1.61	2.04	1.69	1.40
1977	1.21	1.04	1.47	1.85	2.44	1.96	1.37
1978	1.44	1.28	1.77	2.14	2.74	2.22	1.90
1979	1.66	1.36	1.92	2.35	3.03	2.43	2.06
1980	2.30	1.61	2.23	2.69	3.43	2.73	2.36
1981	2.34	1.75	2.42	3.40[a]	4.24	3.41	3.03
1982	2.53	2.01	2.80	4.16[a]	4.93	4.12	3.70
1983	2.48	2.48	3.38	4.74[a]	5.72	4.78	4.15
1984	2.61	2.78	3.71	4.74	6.07	4.89	4.16
1985	2.47	2.80	3.76	4.72	6.14	4.91	4.13
1986 Jan	2.41	2.80	3.78	4.78	5.54	4.77	4.11
Feb	2.35	2.80	3.78	4.80	5.55	4.77	4.15
Mar	2.33	2.80	3.78	4.78	5.59	4.79	4.11
Apr	2.24	2.80	3.78	4.70	5.72	4.78	3.99
May	2.30	2.80	3.78	4.70	6.07	4.86	4.08
Jun	2.24	2.80	3.78	4.65	6.58	4.92	4.07
Jul	2.25	2.80	3.78	4.71	6.70	4.92	4.09
Aug	2.24	2.80	3.78	4.60	6.92	4.98	3.93
Sep	2.28	2.80	3.78	4.57	6.62	4.88	3.93
Oct	2.38	2.80	3.78	4.57	6.09	4.88	3.87
Nov[b]	--	--	--	4.63	5.74	4.77	3.84
Dec	--	--	--	4.70	5.54	4.68	3.97
Average	--	--	--	4.68	6.06	4.83	4.01
1987 Jan	--	--	--	4.31	5.33	4.48	4.13

NOTES: (a) The rising average sales realizations for the years 1981 to 1983 reflect the imposition of the Natural Gas and Gas Liquids Tax.

(b) Effective November 1, 1986, a new gas agreement between the federal and provincial governments provided for the deregulation of natural gas prices and markets. As a result, the price of natural gas in domestic markets is now subject to the interplay between buyers and sellers.

Appendix A-4

CANADIAN CRUDE OIL PRICES: 1978-1987

	Conventional Crude Oil Wellhead Price[a]		Petroleum Compensation & Other Charges		Cost Of Crude Oil Exclusive Of Transportation[b]		Refiner Acquisition Cost At Montréal	
	($/bbl)	($/m^3)	($/bbl)	($/m^3)	($/bbl)	($/m^3)	($/bbl)	($/m^3)
1978								
Jan 1	11.75	73.94					12.66	79.66
1979								
Jan 1	12.75	80.23	0.33	2.08	13.08	2.31	14.13	88.92
1980								
Jan 1	14.75	92.83	0.85	5.35	15.60	98.18	16.65	104.78
1981								
Jan 1	17.75	111.70	5.05	31.77	22.80	143.47	24.07	151.47
1982								
Jan 1	23.50	147.89	7.45	46.89	30.95	194.78	32.54	204.77
1983								
Jan 1	29.75	187.22	4.91	30.89	34.66	218.11	35.79	225.25
1984								
Nov 10	29.75	187.22	7.69	48.39	37.44	235.61	39.44	248.21
1985								
Jun 1	36.40	229.06					38.30	241.02
Jul	35.45	223.09					37.36	235.11
Aug	35.21	221.58					37.12	233.60
Sep	35.42	222.90					37.33	234.92
Oct	36.27	228.25					38.18	244.26
Nov	37.27	234.54					39.19	246.62
Dec	37.06	233.22					38.99	245.36
1986								
Jan	32.79	206.34					34.76	218.93
Feb	22.20	139.70					24.18	152.16
Mar	16.48	103.71					18.46	116.17
Apr	15.74	99.05					17.71	111.45
May	18.25	114.85					20.17	126.93
Jun	17.28	108.74					19.25	121.14
Jul	14.60	91.88					16.58	104.34
Aug	17.68	111.26					19.66	123.72
Sep	18.90	118.94					20.97	131.96
Oct	18.47	116.23					20.54	129.26
Nov	18.79	118.24					20.86	131.27
Dec	19.23	121.01					21.30	134.04
1987								
Jan	22.74	143.10					24.87	156.51
Feb	21.94	138.07					24.17	152.10
Mar	20.36	128.13					22.48	141.47

NOTES: (a) Starting June 1, 1985, i.e. following deregulation, the wellhead price shown here is the Edmonton purchase price less estimated gathering costs of approximately $3.77/m^3 (60¢/bbl).

(b) Gathering and transportation costs, and charges as applicable, make up the difference between the wellhead price and the refiner acquisition cost at Montréal. These costs amounted to $13.34/m^3 ($2.12/bbl) on March 1, 1987.

CRUDE OIL -
AVERAGE REFINER ACQUISITION COSTS[1] BY REGION
($/m³)

		BRITISH COLUMBIA	PRAIRIE PROVINCES	ONTARIO	QUEBEC[2]	ATLANTIC[2]	TOTAL CANADA
1985	Jan-May	244.16	239.13	246.56	235.15	229.69	238.01
	Jun	239.07	231.33	238.37	239.29	239.38	236.86
	Jul	230.38	228.68	236.49	235.38	230.63	233.02
	Aug	230.51	224.91	234.41	233.71	228.18	230.57
	Sep	232.21	225.66	231.20	233.61	235.48	230.89
	Oct	236.93	230.19	233.72	237.03	240.89	234.68
	Nov	241.65	236.80	238.69	243.70	250.20	240.82
	Dec	241.96	234.47	241.77	244.48	252.60	242.10
1986	Jan	225.22	210.50	234.03	242.48	246.43	230.49
	Feb	174.94	144.86	207.92	218.90	218.24	193.64
	Mar	138.82	108.68	159.84	167.72	147.25	145.35
	Apr	108.24	106.22	128.56	117.67	107.10	117.34
	May	119.50	121.20	113.33	116.16	121.77	117.24
	Jun	117.61	113.15	117.80	122.66	120.63	117.77
	Jul	105.72	95.28	116.99	108.92	102.45	106.79
	Aug	116.48	115.48	110.82	105.20	103.83	111.07
	Sep	122.39	122.39	121.20	116.48	114.97	120.26
	Oct	124.16	118.31	128.56	126.95	127.12	125.03
	Nov	123.40	121.89	126.74	125.91	124.85	124.81
	Dec	127.24	126.42	128.82	132.35	132.59	128.97
1987	Jan	137.44	146.44	134.34	140.90	145.24	140.15
	Feb	146.44	142.16	148.20	150.93	154.18	147.70
	Mar	143.80	137.19	145.51	145.85	145.68	143.23

AVERAGE TRANSPORTATION COSTS[3] FROM EDMONTON
($/m³)

		VANCOUVER	REGINA	SARNIA	TORONTO	MONTREAL
1985	Jan-May	5.10	1.45	6.80	7.15	8.22
	Jun-Aug	5.10	1.45	6.80	7.24	8.31
	Sep-Oct	5.10	1.45	6.86	7.30	8.37
	Nov	5.10	1.45	6.92	7.36	8.43
	Dec	5.10	1.45	6.98	7.43	8.50
1986	Jan-Jul	5.10	1.64	7.17	7.61	8.81
	Aug	5.10	1.65	7.17	7.61	8.87
	Sep-Oct	5.10	1.80	7.42	7.92	9.25
	Nov-Dec	4.47	1.80	7.42	7.92	9.25
1987	Jan	4.47	1.95	7.68	8.24	9.75
	Feb	4.47	1.95	7.55	8.12	9.63
	Mar	4.47	1.95	7.55	8.12	9.56
	Apr	4.47	1.95	7.49	8.06	9.56
	May	4.47	1.95	7.55	8.12	9.63

SOURCE: Energy, Mines and Resources Canada, Oil Branch

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(1) The variation in average refiner acquisition cost by region is due to quality differences and the lag time between the actual purchase and delivery dates. Assuming an estimated delivery time from Edmonton to Montreal of six weeks, receipts of any given month at Montreal reflect a mixture of crude purchases made during the two previous months.

(2) The exact average cost of crude oil imports is not available for Quebec and the Atlantic region due to confidentiality considerations. Therefore, the average cost of imports for total eastern Canada has been used to determine the regional averages for Quebec and Atlantic.

(3) Includes pipeline tariffs and pipeline losses but excludes trucking charges.

AVERAGE NET PRICES(1) FOR SELECTED MAJOR PETROLEUM PRODUCTS AND TRADE CLASSES BY REGION

	1985	1986	Decrease(2)
	cents per litre		
REGULAR UNLEADED GASOLINE - Branded Retail			
Atlantic	39.7	32.9	6.8
Quebec	36.1	29.7	6.4
Ontario	33.6	26.4	7.2
Prairies	37.0	30.6	6.4
Pacific	37.8	29.1	8.7
TOTAL CANADA	35.6	28.5	7.1
DIESEL FUEL - Commercial and Industrial			
Atlantic	31.3	25.3	6.0
Quebec	29.9	23.1	6.8
Ontario	28.7	24.0	4.7
Prairies	29.1	23.9	5.2
Pacific	28.9	24.1	4.8
TOTAL CANADA	29.2	23.9	5.3
LIGHT FUEL OIL - Branded Retail			
Atlantic	36.6	31.2	5.4
Quebec	34.9	28.4	6.5
Ontario	36.5	31.5	5.0
Pacific	36.0	30.9	5.1
TOTAL CANADA	35.9	30.5	5.4
HEAVY FUEL OIL #6 - All trade classes			
Atlantic	22.6	15.2	7.4
Quebec	20.5	12.8	7.7
Ontario	21.1	11.3	9.8
Pacific	19.9	10.4	9.5
TOTAL CANADA	21.0	12.5	8.5
TOTAL PETROLEUM PRODUCTS(3) - All trade classes			
Atlantic	35.3	27.7	7.6
Quebec	33.0	26.2	6.8
Ontario	33.1	26.6	6.5
Prairies	34.7	27.3	7.4
Pacific	33.5	26.3	7.2
TOTAL CANADA	33.7	26.7	7.0

SOURCE: Statistics Canada , Prices Division

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(1) Weighted average prices shown were derived from volumes and sales revenue data reported through a survey of major refiners for a wide range of finely specified products and trade classes. The prices are net of provincial road taxes, federal sales and excise taxes, and dealer margins.

(2) This represents the change in net prices compared to the year earlier period.

(3) This represents the summation of petroleum products from the sample selection reported to Statistics Canada in their survey.

PETROLEUM PRODUCT PRICES FOR SELECTED MAJOR PRODUCTS SOLD TO PRIVATE BRAND RESELLERS

	1985		1986	
	Price ¢ per litre	Market Share(1) (%)	Price ¢ per litre	Market Share(1) (%)
PREMIUM UNLEADED GASOLINE				
Quebec	31.3	8.2	22.4	9.0
Ontario	31.2	10.1	23.1	9.1
Prairies	30.9	6.5	22.3	4.9
REGULAR UNLEADED GASOLINE				
Quebec	29.8	12.1	22.0	10.8
Ontario	29.6	19.5	22.3	18.0
Prairies	30.1	13.1	22.3	12.2
REGULAR LEADED GASOLINE				
Quebec	28.7	13.4	19.4	15.4
Ontario	28.3	21.0	20.7	20.7
Prairies	27.9	13.6	21.1	13.1
DIESEL FUEL				
Quebec	27.3	12.1	18.1	11.4
Ontario	26.8	7.3	21.0	8.5
LIGHT FUEL OIL				
Quebec	28.7	25.4	22.2	26.2
Ontario	28.0	33.4	20.7	28.0
Pacific	32.6	9.8	27.6	9.0

SOURCE: Statistics Canada, Prices Division

(1) Reflects an estimated market share of sales by reporting refiners, excluding product imports.

NET INCOME BY SECTOR AND SEGMENT

	1985	1986	Increase (Decrease)	
	---------- $ millions ----------			(%)
CANADIAN-CONTROLLED COMPANIES				
Upstream	844	(2,427)	(3,271)	-
Downstream	13	332	319	-
Other Canadian Operations	(109)	(710)	(601)	-
Foreign Activities	44	(858)	(902)	-
Total Canadian-Controlled	**792**	**(3,664)**	**(4,456)**	**-**
FOREIGN-CONTROLLED COMPANIES				
Upstream	2,086	623	(1,463)	(70)
Downstream	202	475	273	136
Other Canadian Operations	(205)	(89)	116	-
Foreign Activities	(9)	10	19	-
Total Foreign-Controlled	**2,073**	**1,020**	**(1,053)**	**(51)**
TOTAL INDUSTRY				
Upstream	2,929	(1,804)	(4,733)	-
Downstream	215	807	592	275
Other Canadian Operations	(314)	(799)	(485)	-
Foreign Activities	35	(848)	(883)	-
TOTAL INDUSTRY	**2,865**	**(2,644)**	**(5,509)**	**(190)**

COMPARISON OF INTEREST CHARGES WITH INCOME BEFORE TAXES[a]: 1986

	(1) Income Before Interest and Taxes	(2) Interest Charges Incurred	(3) Interest Coverage Ratio
	------- $ millions -------		times
Integrateds and Refiners	2,873	532	5.4
Oil and Gas Producers			
Senior Producers	1,622	1,517	1.1
Junior Producers	20	849	
Total Oil and Gas Producers	1,642	2,365	0.7
TOTAL INDUSTRY	**4,515**	**2,897[b]**	**1.6**
Canadian-Controlled	1,448	2,263	0.6
Foreign-Controlled	3,067	634	4.8

NOTES: (a) The figures in Column 1 represent the total of income from total operations before taxes and expensed interest. Column 2 shows total interest charges incurred (both expensed and capitalized). Column 3 is the ratio of Column 1 to Column 2.

(b) In addition to the $2.7 billion of interest charges expensed in 1986, $150 million was capitalized (almost all by Canadian-controlled companies).

RATES OF RETURN: CANADIAN PETROLEUM INDUSTRY

	1981	1982	1983	1984	1985	1986	Five-Year Average ending in 1985	Five-Year Average ending in 1986
	%							
RETURN ON AVERAGE CAPITAL EMPLOYED								
UPSTREAM								
Canadian-Controlled Companies	6.9	6.6	4.4	6.2	5.1	(4.0)	5.8	3.7
Foreign-Controlled Companies	7.4	10.0	14.0	12.3	10.9	3.9	10.9	10.2
Total Industry	7.2	7.9	8.1	8.6	7.3	(0.9)	7.8	6.2
DOWNSTREAM[a]								
Canadian-Controlled Companies	6.1	(2.3)	(2.4)	3.9	(1.8)	5.5	0.7	0.6
Foreign-Controlled Companies	12.0	4.6	0.8	4.0	3.2	7.5	4.9	4.0
Total Industry*	10.5	2.9	(0.1)	4.0	1.4	6.7	3.7	3.0
TOTAL OPERATIONS[b]								
Canadian-Controlled Companies	6.5	4.3	2.1	6.1	3.9	(4.2)	4.6	2.4
Foreign-Controlled Companies	9.2	7.3	8.2	8.2	7.1	4.4	8.0	7.0
Total Industry	7.7	5.6	4.8	7.1	5.2	(0.7)	6.1	4.4
*Memo: National Refiners/Marketers	9.2	2.3	(1.1)	3.3	0.8	6.4	2.9	2.3
Regional Refiners/Marketers	14.4	5.0	3.3	6.2	2.8	7.4	6.3	4.9
RETURN ON AVERAGE EQUITY								
CANADIAN OPERATIONS								
Canadian-Controlled Companies	9.2	4.2	(2.2)	5.8	3.6	(15.1)	4.1	(0.7)
Foreign-Controlled Companies	12.4	9.9	11.8	12.6	11.1	5.8	11.6	10.2
Total Industry	11.0	7.3	5.2	9.5	7.1	(5.0)	8.0	4.8
TOTAL OPERATIONS[b]								
Canadian-Controlled Companies	8.9	1.3	(3.4)	6.6	3.6	(18.5)	3.4	(2.1)
Foreign-Controlled Companies	12.6	9.7	11.8	12.6	11.0	5.8	11.5	10.2
Total Industry	10.9	5.8	4.5	9.8	7.0	(7.1)	7.6	4.0

NOTES: (a) Downstream here represents oil products operations only, i.e. it excludes petrochemical and other downstream operations.
(b) Upstream, downstream (here also includes petrochemicals and other downstream activities), other Canadian and foreign operations.

RATES OF RETURN: PETROLEUM AND OTHER INDUSTRIES[a]

	1981	1982	1983	1984	1985	1986	Five-Year Average ending in 1985	Five-Year Average ending in 1986
	%							
RETURN ON SHAREHOLDERS' EQUITY[b]								
PETROLEUM	11.1	8.0	5.9	10.0	9.5	(5.2)	8.9	5.6
OTHER NON-FINANCIAL	11.3	5.0	9.3	10.7	9.6	9.7	9.2	8.9
Manufacturing	11.3	3.9	10.4	12.1	10.2	10.6	9.6	9.4
Mining	7.4	(1.8)	2.1	2.3	0.9	1.3	2.2	0.9
Other Industries	12.5	8.4	10.1	11.4	11.2	10.6	10.7	10.3
RETURN ON CAPITAL EMPLOYED[c]								
PETROLEUM	8.1	6.9	5.2	7.2	6.7	(0.2)	6.8	5.2
OTHER NON-FINANCIAL	8.7	5.1	7.3	8.2	7.6	7.5	7.4	7.2
Manufacturing	9.3	4.3	8.5	9.6	8.3	8.5	8.0	7.9
Mining	6.2	4.4	2.3	3.5	2.0	2.3	3.7	2.9
Other Industries	8.8	6.9	7.3	8.0	8.0	7.6	7.8	7.6

SOURCE: Statistics Canada 61-003, **Industrial Corporations Quarterly.**

NOTES: (a) Information on Table 3 (page 1-3) is based on PMA data as per Appendix A-10.

(b) Return on equity is defined as net profit after tax and extraordinary items, divided by average book equity. It measures the rate of return on shareholders' investment (paid-in capital and retained earnings). This measure is often used to compare the performance of companies that may vary by type and by size.

(c) Capital employed is defined as total assets, less current liabilities. The net income figures used to compute rate of return on capital employed have been adjusted by adding the after-tax interest expense on borrowed funds.

PIP GRANTS BY AREA AND TYPE OF EXPENDITURE

	Exploration	Development & Production	TOTAL	Canadian-Controlled	Foreign-Controlled
			$ millions		
British Columbia					
1985	18	4	22	22	-
1986	7	4	11	11	-
Alberta					
1985	237	123	360	360	-
1986	94	52	146	146	-
Saskatchewan					
1985	27	27	54	54	-
1986	6	6	12	12	-
Other Provinces					
1985	4	2	6	6	-
1986	1	1	2	2	-
Beaufort Sea					
1985	447	-	447	430	17
1986	198	-	198	194	4
Labrador East					
1985	428	-	428	410	18
1986	289	-	289	283	5
Atlantic Shelf South					
1985	170	-	170	156	14
1986	92	-	92	81	12
Other Canada Lands					
1985	99	-	99	95	4
1986	55	-	55	49	6
TOTAL					
1985	1,431	156	1,588	1,534	53
1986	743	62	804	777	27

NOTE: PIP grants are incentives to qualifying enterprises carrying out exploration, development and production activities in Canada. The Government of Alberta administers and funds the grants for activities within that province, and the Government of Canada administers and funds the program elsewhere in Canada.

WELL COMPLETIONS AND METRES DRILLED IN CANADA

	EXPLORATORY			DEVELOPMENT		
	1985	1986	Increase (Decrease) (%)	1985	1986	Increase (Decrease) (%)
WELL COMPLETIONS (Number of Wells)						
British Columbia	130	62	(52)	85	105	24
Alberta	2,145	1,531	(29)	4,910	3,196	(35)
Saskatchewan	845	311	(63)	2,913	861	(70)
Other Provinces	137	104	(24)	264	131	(50)
Northern Canada[a]	36	40	11	27	17	(37)
Offshore[b]	28	17	(39)	1	-	(100)
TOTAL	**3,321**	**2,065**	**(38)**	**8,200**	**4,310**	**(47)**
METRES DRILLED (Thousands)						
British Columbia	125	116	(7)	135	159	18
Alberta	3,179	2,284	(28)	5,132	3,850	(25)
Saskatchewan	838	300	(64)	2,721	820	(70)
Other Provinces	77	77	-	232	96	(59)
Northern Canada[a]	88	88	-	24	15	(38)
Offshore[b]	122	69	(43)	4	-	(100)
TOTAL	**4,429**	**2,934**	**(34)**	**8,248**	**4,940**	**(40)**

SOURCE: **Oilweek**, February 23, 1987

NOTES: (a) All areas in Canada North of 60°, including Hudson Bay.

(b) East coast and West coast offshore areas.

GROSS EXPLORATION EXPENDITURES IN CANADA--BY AREA

	1985	1986	Increase (Decrease) (%)
	------ $ millions ------		
PROVINCIAL LANDS			
British Columbia	214	176	(18)
Alberta	2,468	1,722	(30)
Saskatchewan	286	102	(64)
Other Provinces	49	16	(68)
TOTAL PROVINCIAL LANDS	**3,017**	**2,017**	**(33)**
CANADA LANDS			
Beaufort Sea	629	394	(37)
Labrador East	693	463	(33)
Atlantic Shelf South	428	232	(46)
Other Canada Lands	163	118	(28)
TOTAL CANADA LANDS	**1,913**	**1,207**	**(37)**
TOTAL CANADA	**4,930**	**3,224**	**(35)**

REINVESTMENT RATES

	Total[a]		Upstream[b]		Upstream[c] plus Downstream	
	1985	1986	1985	1986	1985	1986
	(%)		(%)		(%)	
Integrateds and Refiners	82	65	74	81	77	64
Oil and Gas Producers						
Senior Producers	74	101	64	92	65	93
Junior Producers	133	140	120	141	120	141
Total Oil and Gas Producers	90	113	78	106	79	106
TOTAL INDUSTRY	**87**	**89**	**77**	**97**	**78**	**85**
Canadian-Controlled	91	110	76	121	77	102
Foreign-Controlled	82	73	78	80	79	73

NOTES: (a) Total capital expenditures (net of PIP and other incentive grants) as a percentage of total internal cash flow. The calculations do not reflect changes in inventories. Had changes in the cost of inventories been included, the reinvestment rate would have been 59% in 1986 vs. 79% in 1985.

(b) Upstream capital expenditures (net of PIP and other incentive grants) in Canada as a percentage of upstream cash flow.

(c) Upstream plus downstream ('petroleum-related') capital expenditures in Canada as a percentage of internal cash flow generated by petroleum-related activities.

DIVIDEND PAYMENTS

	1985	1986	Per cent of Net Income[a] 1985	1986
	--- $ millions ---		(%)	
Integrateds and Refiners	742	731	122	67
Oil and Gas Producers				
Senior Producers	783	1,700	37	(77)
Junior Producers	265	117	184	(8)
Total Oil and Gas Producers	1,048	1,817	46	(49)
TOTAL INDUSTRY	**1,790**	**2,548**	**62**	**(96)**
Canadian-Controlled	832	571	105	(16)
Foreign-Controlled	958	1,977	46	194

NOTE: (a) Derived by dividing dividend payments for each company group by their net income on total operations (Appendix B, Schedule 1).

CANADIAN OWNERSHIP AND CONTROL BY COMPANY GROUP AND CATEGORY

	OWNERSHIP		CONTROL	
	1985	1986	1985	1986
	(%)		(%)	
UPSTREAM PLUS DOWNSTREAM REVENUES[a]				
Integrateds and Refiners	48.9	41.8	37.8	31.7
Oil and Gas Producers	46.7	53.2	55.3	61.6
TOTAL INDUSTRY	**48.2**	**45.0**	**42.7**	**40.1**
UPSTREAM REVENUES				
Integrateds and Refiners	51.3	40.4	38.6	25.4
Oil and Gas Producers	45.7	51.0	54.4	59.6
TOTAL INDUSTRY	**47.9**	**47.7**	**48.3**	**48.8**
OTHER MEASUREMENT BASES				
REVENUES				
Natural Gas	49.9	49.9	54.4	54.5
Crude Oil	46.6	45.5	43.6	43.1
Downstream	48.5	43.2	38.2	34.6
EXPLORATION EXPENDITURES	**66.2**	**62.8**	**70.8**	**66.8**
TOTAL ASSETS IN CANADA	**56.1**	**54.9**	**59.0**	**57.5**

NOTE: (a) Many petroleum companies have operations in non petroleum-related fields which are not included here. Upstream plus downstream revenues have been taken as a substitute for a more specifically defined figure reflecting every aspect of the Canadian petroleum industry.

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

TOTAL INDUSTRY

	------UPSTREAM------			-----DOWNSTREAM-----			--OTHER OPERATIONS--			--FOREIGN ACTIVITIES--			--TOTAL OPERATIONS--		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	27960	16896	-39.6	34076	26376	-22.6	2628	2776	5.6	1750	1268	-27.5	66414	47316	-28.8
ROYALTIES & OTHER PYMT	6345	3121	-50.8	0	0	--	0	0	--	0	0	--	6345	3121	-50.8
PGRT & OTHER TAXES	2010	436	-78.3	2314	2972	28.4	17	21	21.2	151	87	-42.6	4493	3516	-21.7
TOTAL REVENUE AFTER ROY.	19605	13339	-32.0	31762	23404	-26.3	2610	2754	5.5	1599	1182	-26.1	55576	40679	-26.8
COST OF GOODS SOLD	0	0	--	26976	17945	-33.5	863	1028	19.1	153	67	-56.5	27993	19040	-32.0
INTEREST EXPENSES	1574	1676	6.5	201	112	-44.3	564	877	55.6	117	80	-31.6	2456	2745	11.8
OPERATING COSTS	4814	4783	-0.6	3252	3164	-2.7	943	661	-29.9	568	510	-10.1	9576	9119	-4.8
R&D COST(EXCL. OIL SAND)	68	69	0.6	80	70	-12.8	7	11	55.1	0	0	0.4	156	150	-3.8
OTHER EXPENSES	600	812	35.3	43	52	20.8	107	181	69.0	60	81	36.4	810	1127	39.0
OIL SANDS R&D EXPENSED	36	33	-8.0	0	0	--	0	0	--	0	0	--	36	33	-8.0
E&D EXPENSED	876	980	11.9	0	0	--	57	28	-50.7	11	2	-77.7	944	1011	7.1
DEPRECIATION	841	1077	28.1	686	696	1.5	227	232	2.2	49	67	36.8	1803	2073	15.0
DEPLETION	1732	2031	17.3	0	0	--	10	21	114.6	381	600	57.7	2122	2653	25.0
WRITE-OFFS & AMORT.	528	869	64.6	170	-71	--	51	21	-59.2	157	139	-11.1	906	958	5.7
NON-CASH CHARGES AND E&D	4013	4991	24.4	856	625	-27.0	345	302	-12.4	597	809	35.4	5812	6728	15.8
INCOME BEFORE TAXES	8535	1008	-88.2	353	1434	305.9	-219	-366	--	103	-366	--	8773	1770	-79.8
FEDERAL INCOME TAX	2482	758	-69.5	107	346	222.4	-142	-284	--	128	77	-40.2	2575	896	-65.2
PROVINCIAL INCOME TAX	549	24	-95.7	19	73	283.1	-26	-32	--	-0	0	--	542	65	-88.1
CURRENT INCOME TAX	3031	781	-74.2	126	419	231.5	-168	-316	--	128	77	-40.1	3117	960	-69.2
INC. AFT. CURR. INC. TAX	5504	227	-95.9	227	1016	347.2	-51	10	--	-25	-443	--	5656	810	-85.7
DEFERRED INCOME TAX	1768	55	-96.9	-116	-4	--	28	34	21.6	34	-42	--	1713	42	-97.5
NET INCOME AFTER TAXES	3736	172	-95.4	344	1020	196.8	-79	-24	--	-59	-400	--	3942	767	-80.5
EXTR. GAINS OR LOSSES	-807	-1975	--	-129	-213	--	-236	-775	--	94	-448	--	-1077	-3411	--
NET INC. AFT. EXTR. ITEM	2929	-1804	--	215	807	275.5	-314	-799	--	35	-848	--	2865	-2644	--
INTERNAL CASH FLOW	9517	5218	-45.2	1083	1641	51.5	294	312	6.1	572	366	-36.0	11467	7538	-34.3

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

INTEGRATEDS & REFINERS

	——UPSTREAM——			——DOWNSTREAM——			--OTHER OPERATIONS--			--FOREIGN ACTIVITIES--			--TOTAL OPERATIONS--		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	9019	5306	-41.2	29865	25765	-13.7	1381	1685	22.0	142	114	-19.7	40406	32870	-18.6
ROYALTIES & OTHER PYMT	2161	955	-55.8	0	0	--	0	0	--	0	0	--	2161	955	-55.8
PGRT & OTHER TAXES	624	110	-82.3	2057	2970	44.4	11	15	32.3	0	0	-82.5	2692	3095	14.9
TOTAL REVENUE AFTER ROY.	6233	4241	-32.0	27808	22795	-18.0	1370	1670	22.0	142	114	-19.7	35553	28821	-18.9
COST OF GOODS SOLD	0	0	--	23931	17650	-26.2	860	1026	19.4	0	0	--	24790	18677	-24.7
INTEREST EXPENSES	12	4	-66.9	100	101	0.7	364	390	7.2	0	0	-99.6	476	495	3.9
OPERATING COSTS	1882	1742	-7.4	2718	2978	9.6	211	88	-58.6	72	67	-5.8	4883	4875	-0.2
R&D COST(EXCL. OIL SAND)	35	38	8.2	72	70	-3.0	6	10	78.1	0	0	--	113	118	4.5
OTHER EXPENSES	136	144	6.0	43	52	21.2	43	64	50.9	0	0	-26.8	222	260	17.5
OIL SANDS R&D EXPENSED	15	19	24.8	0	0	--	0	0	--	0	0	--	15	19	24.8
E&D EXPENSED	258	346	34.3	0	0	--	27	24	-11.2	0	0	-97.6	285	371	29.8
DEPRECIATION	276	303	9.9	575	654	13.7	70	71	1.6	2	1	-22.9	922	1029	11.6
DEPLETION	332	267	-19.4	0	0	--	2	0	-90.7	20	21	5.2	354	288	-18.5
WRITE-OFFS & AMORT.	217	246	12.9	55	22	-59.6	2	37	--	5	6	12.7	280	310	11.0
NON-CASH CHARGES AND E&D	1098	1181	7.6	630	676	7.3	101	132	30.8	27	28	4.2	1856	2018	8.7
INCOME BEFORE TAXES	3071	1132	-63.1	313	1268	305.1	-215	-40	--	43	19	-57.0	3212	2378	-26.0
FEDERAL INCOME TAX	908	418	-54.0	50	339	--	-189	-250	--	26	18	-28.6	794	525	-33.9
PROVINCIAL INCOME TAX	210	58	-72.4	2	71	--	-35	-18	--	0	0	--	177	111	-37.2
CURRENT INCOME TAX	1118	476	-57.4	52	410	--	-224	-268	--	26	18	-28.6	972	637	-34.5
INC. AFT. CURR. INC. TAX	1953	656	-66.4	261	857	228.7	10	228	--	17	0	-99.4	2241	1742	-22.3
DEFERRED INCOME TAX	591	125	-78.8	-3	96	--	-6	133	--	-1	1	--	581	355	-38.8
NET INCOME AFTER TAXES	1362	531	-61.0	264	761	188.6	16	95	--	18	-1	--	1660	1386	-16.5
EXTR. GAINS OR LOSSES	-678	-75	--	-129	-45	--	-246	-179	--	0	-4	--	-1053	-303	--
NET INC. AFT. EXTR. ITEM	684	456	-33.2	135	716	--	-230	-84	--	18	-5	--	607	1084	78.6
INTERNAL CASH FLOW	3051	1838	-39.8	891	1534	72.1	111	360	224.8	44	28	-36.6	4097	3759	-8.2

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

JUNIOR OIL & GAS PRODUCERS

	-----UPSTREAM-----			-----DOWNSTREAM-----			--OTHER OPERATIONS--			--FOREIGN ACTIVITIES--			--TOTAL OPERATIONS--		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	4712	3213	-31.8	95	22	-76.5	355	363	2.3	1040	613	-41.0	6202	4211	-32.1
ROYALTIES & OTHER PYMT	1107	646	-41.6	0	0	--	0	0	--	0	0	--	1107	646	-41.6
PGRT & OTHER TAXES	322	63	-80.4	0	0	--	0	-1	--	109	50	-53.9	431	113	-73.8
TOTAL REVENUE AFTER ROY.	3283	2503	-23.7	95	22	-76.5	355	364	2.5	931	563	-39.5	4664	3453	-26.0
COST OF GOODS SOLD	0	0	--	53	9	-82.2	3	2	-54.0	19	0	-100.0	75	11	-85.3
INTEREST EXPENSES	673	685	1.8	6	0	-99.0	16	50	222.0	94	43	-54.8	790	778	-1.5
OPERATING COSTS	713	734	3.0	15	6	-63.2	242	242	-0.1	364	278	-23.7	1333	1259	-5.6
R&D COST(EXCL. OIL SAND)	1	1	12.6	0	0	--	1	0	-59.3	0	0	0.4	2	2	-16.0
OTHER EXPENSES	242	229	-5.4	1	0	-1.8	15	23	53.3	39	16	-57.4	296	269	-9.2
OIL SANDS R&D EXPENSED	-0	0	--	0	0	--	0	0	--	0	0	--	-0	0	--
E&D EXPENSED	54	72	34.2	0	0	--	0	0	--	3	2	-27.5	56	74	31.4
DEPRECIATION	142	157	10.8	19	1	-93.5	21	28	30.7	34	55	64.9	215	241	12.0
DEPLETION	602	848	40.9	0	0	--	1	11	--	233	256	10.1	836	1115	33.4
WRITE-OFFS & AMORT.	165	333	101.8	-3	29	--	23	-11	--	147	110	-24.9	331	461	39.4
NON-CASH CHARGES AND E&D	962	1411	46.6	15	30	95.3	45	27	-39.0	416	424	1.9	1438	1892	31.5
INCOME BEFORE TAXES	691	-557	--	5	-23	--	33	20	-41.2	0	-198	--	729	-758	--
FEDERAL INCOME TAX	87	34	-61.4	1	1	65.9	12	11	-14.0	84	27	-68.4	185	72	-60.9
PROVINCIAL INCOME TAX	-65	-94	--	0	0	39.7	0	0	--	0	0	-87.2	-65	-93	--
CURRENT INCOME TAX	22	-60	--	1	2	58.0	12	11	-13.6	84	27	-68.4	120	-21	--
INC. AFT. CURR. INC. TAX	669	-497	--	4	-25	--	21	9	-57.4	-84	-224	--	609	-737	--
DEFERRED INCOME TAX	379	-44	--	-0	-0	--	2	-4	--	14	-30	--	395	-78	--
NET INCOME AFTER TAXES	290	-453	--	4	-25	--	18	13	-30.6	-98	-195	--	215	-659	--
EXTR. GAINS OR LOSSES	-166	-359	--	0	-167	--	3	-17	--	93	-325	--	-70	-869	--
NET INC. AFT. EXTR. ITEM	124	-812	--	4	-192	--	21	-5	--	-5	-520	--	144	-1529	--
INTERNAL CASH FLOW	1631	914	-44.0	19	5	-74.1	66	36	-44.8	332	200	-39.8	2048	1155	-43.6

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

SENIOR OIL & GAS PRODUCERS

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	14230	8377	-41.1	4116	589	-85.7	892	728	-18.4	567	541	-4.6	19806	10234	-48.3
ROYALTIES & OTHER PYMT	3077	1520	-50.6	0	0	--	0	0	--	0	0	--	3077	1520	-50.6
PGRT & OTHER TAXES	1064	262	-75.3	257	2	-99.1	6	7	14.4	42	36	-13.4	1370	309	-77.5
TOTAL REVENUE AFTER ROY.	10088	6595	-34.6	3859	586	-84.8	886	720	-18.7	525	505	-3.9	15359	8406	-45.3
COST OF GOODS SOLD	0	0	--	2993	286	-90.5	0	0	--	134	67	-50.5	3127	352	-88.7
INTEREST EXPENSES	889	987	11.0	94	11	-88.4	184	437	137.2	23	37	66.1	1190	1472	23.7
OPERATING COSTS	2219	2308	4.0	518	181	-65.2	490	332	-32.2	133	165	24.5	3360	2986	-11.1
R&D COST(EXCL. OIL SAND)	33	30	-7.7	8	0	-99.6	1	1	-4.6	0	0	--	41	31	-25.6
OTHER EXPENSES	222	439	97.5	0	0	-100.0	50	94	89.4	21	65	213.1	292	597	104.3
OIL SANDS R&D EXPENSED	21	14	-34.4	0	0	--	0	0	--	0	0	--	21	14	-34.4
E&D EXPENSED	565	562	-0.5	0	0	--	29	3	-88.1	8	1	-92.4	602	566	-6.0
DEPRECIATION	424	618	45.7	92	41	-55.1	136	134	-2.0	14	10	-24.9	666	803	20.6
DEPLETION	798	916	14.8	0	0	--	7	11	60.0	128	323	152.6	932	1249	34.0
WRITE-OFFS & AMORT.	145	290	99.9	118	-123	--	27	-5	--	5	24	354.2	295	186	-37.0
NON-CASH CHARGES AND E&D	1953	2399	22.9	210	-81	--	199	143	-28.2	155	357	130.4	2517	2818	12.0
INCOME BEFORE TAXES	4773	432	-90.9	36	190	--	-37	-286	--	60	-187	--	4831	150	-96.9
FEDERAL INCOME TAX	1486	306	-79.4	57	5	-90.8	35	-45	--	18	32	71.9	1596	298	-81.3
PROVINCIAL INCOME TAX	404	59	-85.4	16	1	-91.2	9	-14	--	-0	0	--	429	46	-89.2
CURRENT INCOME TAX	1890	365	-80.7	73	7	-90.9	44	-59	--	18	32	75.5	2025	345	-83.0
INC. AFT. CURR. INC. TAX	2882	67	-97.7	-37	184	--	-82	-227	--	42	-218	--	2805	-194	--
DEFERRED INCOME TAX	798	-26	--	-113	-100	--	32	-95	--	21	-14	--	738	-235	--
NET INCOME AFTER TAXES	2084	93	-95.5	76	284	273.5	-113	-132	--	21	-205	--	2068	40	-98.0
EXTR. GAINS OR LOSSES	37	-1541	--	0	0	--	8	-579	--	1	-118	--	47	-2239	--
NET INC. AFT. EXTR. ITEM	2121	-1448	--	76	284	273.5	-105	-711	--	22	-323	--	2114	-2199	--
INTERNAL CASH FLOW	4835	2466	-49.0	173	102	-40.7	118	-84	--	197	139	-29.4	5323	2624	-50.7

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

TOTAL OIL & GAS PRODUCERS

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
TOTAL REVENUES	18942	11590	-38.8	4211	611	-85.5	1247	1091	-12.5	1608	1155	-28.2	26008	14446	-44.5
ROYALTIES & OTHER PYMT	4184	2166	-48.2	0	0	--	0	0	--	0	0	--	4184	2166	-48.2
PGRT & OTHER TAXES	1386	326	-76.5	257	2	-99.1	6	7	2.0	151	87	-42.6	1801	421	-76.6
TOTAL REVENUE AFTER ROY.	13371	9098	-32.0	3954	608	-84.6	1241	1084	-12.6	1457	1068	-26.7	20023	11859	-40.8
COST OF GOODS SOLD	0	0	--	3046	295	-90.3	3	2	-54.0	153	67	-56.5	3202	363	-88.7
INTEREST EXPENSES	1562	1672	7.0	101	11	-89.1	200	487	143.8	117	80	-31.5	1980	2250	13.7
OPERATING COSTS	2932	3042	3.7	533	186	-65.1	732	574	-21.6	496	443	-10.8	4693	4245	-9.6
R&D COST(EXCL. OIL SAND)	34	31	-7.1	8	3	-99.6	1	1	-33.6	0	0	0.4	44	33	-25.2
OTHER EXPENSES	464	668	43.8	1	3	-10.2	64	117	81.0	59	81	36.7	589	866	47.1
OIL SANDS R&D EXPENSED	21	14	-32.2	0	0	--	0	0	--	0	0	--	21	14	-32.2
E&D EXPENSED	619	634	2.5	0	0	--	29	3	-88.1	11	2	-77.4	659	640	-2.8
DEPRECIATION	565	774	37.0	111	43	-61.6	158	162	2.4	47	66	38.9	881	1044	18.5
DEPLETION	1400	1764	26.0	0	0	--	8	21	174.2	361	579	60.6	1768	2364	33.7
WRITE-OFFS & AMORT.	310	623	100.9	115	-94	--	50	-16	--	152	134	-11.9	626	647	3.4
NON-CASH CHARGES AND E&D	2915	3810	30.7	225	-51	--	244	170	-30.2	571	781	36.9	3955	4710	19.1
INCOME BEFORE TAXES	5464	-124	--	41	167	311.9	-4	-266	--	60	-384	--	5560	-608	--
FEDERAL INCOME TAX	1574	340	-78.4	57	7	-88.6	47	-34	--	102	58	-43.2	1781	370	-79.2
PROVINCIAL INCOME TAX	339	-35	--	17	2	-88.5	9	-14	--	-0	0	--	365	-47	--
CURRENT INCOME TAX	1913	305	-84.0	74	8	-88.6	56	-48	--	102	58	-43.0	2145	324	-84.9
INC. AFT. CURR. INC. TAX	3552	-429	--	-34	158	--	-61	-218	--	-42	-443	--	3415	-932	--
DEFERRED INCOME TAX	1177	-70	--	-114	-100	--	34	-99	--	35	-43	--	1132	-313	--
NET INCOME AFTER TAXES	2374	-359	--	80	259	224.1	-95	-119	--	-77	-399	--	2282	-619	--
EXTR. GAINS OR LOSSES	-129	-1901	--	0	-167	--	11	-597	--	94	-444	--	-24	-3109	--
NET INC. AFT. EXTR. ITEM	2246	-2260	--	80	91	14.4	-84	-716	--	17	-843	--	2259	-3728	--
INTERNAL CASH FLOW	6466	3380	-47.7	192	107	-44.0	184	-48	--	528	339	-35.9	7370	3778	-48.7

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

CANADIAN-CONTROLLED COMPANIES

	——UPSTREAM——			——DOWNSTREAM——			--OTHER OPERATIONS--			--FOREIGN ACTIVITIES--			--TOTAL OPERATIONS--		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	13511	8244	-39.0	13005	9111	-29.9	2094	1907	-8.9	1427	969	-32.1	30038	20231	-32.6
ROYALTIES & OTHER PYMT	2738	1431	-47.7	0	0	--	0	0	--	0	0	--	2738	1431	-47.7
PGRT & OTHER TAXES	933	189	-79.7	898	1008	12.2	7	8	6.1	122	64	-47.8	1960	1269	-35.3
TOTAL REVENUE AFTER ROY.	9841	6624	-32.7	12107	8104	-33.1	2087	1899	-9.0	1305	905	-30.6	25340	17532	-30.8
COST OF GOODS SOLD	0	0	--	10145	6098	-39.9	844	824	-2.3	153	67	-56.5	11141	6989	-37.3
INTEREST EXPENSES	1417	1458	2.8	137	55	-59.7	236	566	139.5	104	74	-29.0	1894	2152	13.6
OPERATING COSTS	2275	2316	1.8	1220	1134	-7.1	687	473	-31.1	445	386	-13.4	4628	4308	-6.9
R&D COST(EXCL. OIL SAND)	13	10	-27.8	9	0	-99.6	1	0	-68.9	0	0	0.4	23	10	-55.7
OTHER EXPENSES	434	612	40.9	26	44	68.7	69	101	46.4	49	68	40.5	578	825	42.8
OIL SANDS R&D EXPENSED	9	5	-49.3	0	0	--	0	0	--	0	0	--	9	5	-49.3
E&D EXPENSED	156	166	6.5	0	0	--	12	-7	--	1	1	-3.9	168	159	-5.3
DEPRECIATION	479	665	38.9	324	307	-5.1	192	179	-6.9	43	65	49.9	1039	1217	17.1
DEPLETION	1283	1617	26.0	0	0	--	10	18	87.8	318	510	60.5	1611	2145	33.2
WRITE-OFFS & AMORT.	138	383	176.8	141	-75	--	11	-8	--	119	125	5.1	410	426	3.8
NON-CASH CHARGES AND E&D	2066	2836	37.3	465	232	-50.1	225	182	-19.1	481	701	45.7	3237	3951	22.1
INCOME BEFORE TAXES	3635	-807	--	105	541	--	25	-247	--	73	-390	--	3838	-704	--
FEDERAL INCOME TAX	590	152	-74.3	100	41	-59.2	53	-70	--	107	50	-53.0	850	173	-79.6
PROVINCIAL INCOME TAX	79	-67	--	16	3	-83.7	11	-18	--	-0	0	--	106	-82	--
CURRENT INCOME TAX	669	85	-87.3	116	43	-62.6	64	-88	--	107	50	-52.9	956	91	-90.5
INC. AFT. CURR. INC. TAX	2967	-692	--	-12	497	--	-39	-159	--	-34	-441	--	2882	-795	--
DEFERRED INCOME TAX	1303	-108	--	-154	2	--	11	-65	--	16	-30	--	1175	-202	--
NET INCOME AFTER TAXES	1664	-584	--	142	495	248.7	-50	-94	--	-50	-411	--	1706	-593	--
EXTR. GAINS OR LOSSES	-821	-1843	--	-129	-163	--	-59	-616	--	94	-448	--	-914	-3071	--
NET INC. AFT. EXTR. ITEM	844	-2427	--	13	332	--	-109	-710	--	44	-858	--	792	-3664	--
INTERNAL CASH FLOW	5032	2144	-57.4	454	729	60.8	186	23	-87.8	447	261	-41.7	6119	3157	-48.4

SCHEDULE 1

INCOME AND EXPENSE STATEMENT - ALL OPERATIONS

FOREIGN-CONTROLLED COMPANIES

	UPSTREAM			DOWNSTREAM			OTHER OPERATIONS			FOREIGN ACTIVITIES			TOTAL OPERATIONS		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
TOTAL REVENUES	14449	8652	-40.1	21071	17264	-18.1	533	869	62.9	323	299	-7.2	36376	27085	-25.5
ROYALTIES & OTHER PYMT	3607	1690	-53.2	0	0	--	0	0	--	0	0	--	3607	1690	-53.2
PGRT & OTHER TAXES	1077	247	-77.1	1416	1964	38.7	10	13	32.3	29	23	-20.8	2532	2247	-11.3
TOTAL REVENUE AFTER ROY.	9764	6716	-31.2	19655	15300	-22.2	523	856	63.4	294	276	-5.9	30236	23148	-23.4
COST OF GOODS SOLD	0	0	--	16832	11847	-29.6	20	204	--	0	0	--	16851	12051	-28.5
INTEREST EXPENSES	157	218	39.4	64	57	-11.2	328	311	-4.9	13	6	-51.6	562	593	5.6
OPERATING COSTS	2539	2468	-2.8	2031	2031	-0.0	255	188	-26.4	123	125	1.5	4949	4811	-2.8
R&D COST(EXCL. OIL SAND)	55	59	7.6	72	70	-2.3	6	11	73.2	0	0	--	133	140	5.3
OTHER EXPENSES	166	200	20.5	17	8	-52.4	38	80	109.7	11	13	18.4	232	302	29.7
OIL SANDS R&D EXPENSED	27	29	6.2	0	0	--	0	0	--	0	0	--	27	29	6.2
E&D EXPENSED	721	815	13.0	0	0	--	44	35	-21.6	10	2	-82.1	776	852	9.8
DEPRECIATION	362	412	13.8	362	389	7.5	35	54	51.4	6	2	-66.3	765	856	12.0
DEPLETION	449	415	-7.6	0	0	--	0	3	--	62	90	43.8	511	508	-0.7
WRITE-OFFS & AMORT.	389	485	24.7	29	4	-86.9	40	29	-28.2	38	14	-62.6	496	532	7.3
NON-CASH CHARGES AND E&D	1947	2155	10.7	391	393	0.6	120	120	0.2	116	108	-7.3	2574	2776	7.8
INCOME BEFORE TAXES	4900	1615	-67.0	249	894	259.4	-244	-59	--	30	24	-19.0	4935	2474	-49.9
FEDERAL INCOME TAX	1892	606	-68.0	7	305	--	-195	-214	--	21	26	24.2	1725	723	-58.1
PROVINCIAL INCOME TAX	470	91	-80.7	3	70	--	-37	-14	--	0	0	-54.5	436	147	-66.2
CURRENT INCOME TAX	2362	696	-70.5	10	375	--	-232	-228	--	21	26	24.0	2161	870	-59.8
INC. AFT. CURR. INC. TAX	2538	919	-63.8	239	519	117.3	-12	169	--	9	-2	--	2774	1605	-42.1
DEFERRED INCOME TAX	466	163	-64.9	37	-6	--	17	99	--	18	-12	--	538	244	-54.6
NET INCOME AFTER TAXES	2072	755	-63.5	202	525	160.3	-29	70	--	-9	10	--	2236	1361	-39.2
EXTR. GAINS OR LOSSES	14	-132	--	0	-49	--	-177	-159	--	0	0	--	-163	-341	--
NET INC. AFT. EXTR. ITEM	2086	623	-70.1	202	475	135.8	-205	-89	--	-9	10	--	2073	1020	-50.8
INTERNAL CASH FLOW	4485	3074	-31.5	629	912	44.8	109	290	166.5	125	106	-15.4	5348	4381	-18.1

Appendix B-8

SCHEDULE 2(a)

FINANCIAL PERFORMANCE FOR MAIN BUSINESS SEGMENTS

UPSTREAM OPERATIONS

	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
	1985 ('000 M3)	1986 ('000 M3)	CHANGE (%)	1985 ('000 M3)	1986 ('000 M3)	CHANGE (%)	1985 ('000 M3)	1986 ('000 M3)	CHANGE (%)
PRODUCTION OF OIL EQUIVALENT	155289	150684	-3.0	77883	75428	-3.2	77407	75256	-2.8
KEY FINANCIAL ITEMS	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
GROSS REVENUE	27960	16896	-39.6	13511	8244	-39.0	14449	8652	-40.1
CASH INCOME	9517	5218	-45.2	5032	2144	-57.4	4485	3074	-31.5
NET INCOME	3736	172	-95.4	1664	-584	--	2072	755	-63.5
NET INCOME PLUS INTEREST	5310	1848	-65.2	3082	874	-71.6	2229	974	-56.3
CAPITAL EMPLOYED	54645	46847	-14.3	33060	28294	-14.4	21585	18553	-14.0
UNIT REVENUES AND COSTS	($/M3)		(%)	($/M3)		(%)	($/M3)		(%)
GROSS REVENUE	180.05	112.13	-37.7	173.48	109.29	-37.0	186.66	114.97	-38.4
ROYALTIES & OTHER PYMT	40.86	20.71	-49.3	35.15	18.97	-46.0	46.60	22.46	-51.8
PGRT & OTHER TAXES	12.95	2.89	-77.6	11.98	2.51	-79.0	13.92	3.28	-76.5
REVENUES AFTER RYLTIES & TAXES	126.25	88.52	-29.9	126.36	87.81	-30.5	126.14	89.24	-29.3
INTEREST EXPENSES	10.14	11.12	9.7	18.20	19.33	6.2	2.02	2.90	43.4
OPERATING COSTS (EXCL.RSRCH)	31.00	31.74	2.4	29.21	30.70	5.1	32.80	32.79	-0.0
RESEARCH & OTHER EXPENSES	4.31	5.85	35.7	5.75	8.24	43.4	2.86	3.44	20.6
CASH INCOME BEFORE TAXES	80.80	39.81	-50.7	73.20	29.54	-59.6	88.46	50.10	-43.4
E&D & OIL SANDS R&D EXPENSED	5.88	6.73	14.5	2.12	2.26	6.7	9.66	11.21	16.0
DEPRECIATION	5.42	7.15	32.0	6.15	8.82	43.4	4.67	5.47	17.1
DEPLETION	11.15	13.48	20.9	16.48	21.43	30.1	5.79	5.51	-4.9
WRITE-OFFS	3.40	5.76	69.7	1.78	5.08	185.8	5.03	6.45	28.3
NET INCOME BEFORE TAXES	54.96	6.69	-87.8	46.68	-8.05	--	63.30	21.46	-66.1
FEDERAL INCOME TAX	15.98	5.03	-68.5	7.57	2.01	-73.4	24.45	8.05	-67.1
PROVINCIAL INCOME TAX	3.53	0.16	-95.6	1.01	-0.89	--	6.07	1.20	-80.2
DEFERRED INCOME TAX	11.39	0.37	-96.8	16.73	-1.43	--	6.01	2.17	-63.9
NET INCOME AFTER TAXES	24.06	1.14	-95.3	21.37	-7.74	--	26.77	10.04	-62.5
EXTRAORDINARY GAINS OR LOSSES	-5.20	-13.11	--	-10.54	-24.44	--	0.18	-1.75	--
NET INCOME AFTER EXTR. ITEMS	18.86	-11.97	--	10.83	-32.18	--	26.95	8.28	-69.3
INTERNAL CASH FLOW	61.29	34.63	-43.5	64.61	28.42	-56.0	57.94	40.85	-29.5
RATIOS	(%)	(%)		(%)	(%)		(%)	(%)	
NATURAL GAS AS A PERCENT OF TOTAL PRODUCTION	41.6	40.2	N/A	46.8	45.7	N/A	36.2	34.7	N/A
OIL SUBJECT TO OLD OIL ROYALTY AS A PERCENT OF CONVENTIONAL OIL PRODUCTION	55.7	50.9	N/A	51.8	49.0	N/A	58.8	52.6	N/A

SCHEDULE 2(a)

FINANCIAL PERFORMANCE FOR MAIN BUSINESS SEGMENTS

UPSTREAM OPERATIONS (CONTINUED)

	INTEGRATEDS/REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
	1985 ('000 M3)	1986 ('000 M3)	CHANGE (%)	1985 ('000 M3)	1986 ('000 M3)	CHANGE (%)	1985 ('000 M3)	1986 ('000 M3)	CHANGE (%)
PRODUCTION OF OIL EQUIVALENT	49516	50235	1.5	30110	30643	1.8	75663	69806	-7.7
KEY FINANCIAL ITEMS	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
GROSS REVENUE	9019	5306	-41.2	4712	3213	-31.8	14230	8377	-41.1
CASH INCOME	3051	1838	-39.8	1631	914	-44.0	4835	2466	-49.0
NET INCOME	1362	531	-61.0	290	-453	--	2084	93	-95.5
NET INCOME PLUS INTEREST	1373	535	-61.0	964	233	-75.9	2973	1080	-63.7
CAPITAL EMPLOYED	13973	12288	-12.1	15846	13933	-12.1	24826	20627	-16.9
UNIT REVENUES AND COSTS	($/M3)		(%)	($/M3)		(%)	($/M3)		(%)
GROSS REVENUE	182.13	105.63	-42.0	156.48	104.84	-33.0	188.07	120.00	-36.2
ROYALTIES & OTHER PYMT	43.64	19.01	-56.4	36.76	21.09	-42.6	40.67	21.77	-46.5
PGRT & OTHER TAXES	12.61	2.20	-82.6	10.68	2.06	-80.7	14.07	3.76	-73.3
REVENUES AFTER RYLTIES & TAXES	125.88	84.42	-32.9	109.03	81.70	-25.1	133.33	94.48	-29.1
INTEREST EXPENSES	0.24	0.08	-67.3	22.36	22.36	-0.0	11.75	14.14	20.3
OPERATING COSTS (EXCL RSRCH)	38.00	34.67	-8.8	23.68	23.95	1.2	29.33	33.06	12.7
RESEARCH & OTHER EXPENSES	3.45	3.62	4.9	8.08	7.52	-7.0	3.37	6.72	99.4
CASH INCOME BEFORE TAXES	84.20	46.06	-45.3	54.91	27.87	-49.3	88.89	40.56	-54.4
E&D & OIL SANDS R&D EXPENSED	5.52	7.28	31.8	1.77	2.35	33.2	7.75	8.25	6.5
DEPRECIATION	5.57	6.03	8.3	4.70	5.12	8.8	5.60	8.85	58.0
DEPLETION	6.70	5.32	-20.6	20.00	27.68	38.4	10.54	13.12	24.4
WRITE-OFFS	4.39	4.89	11.3	5.49	10.88	98.3	1.92	4.15	116.7
NET INCOME BEFORE TAXES	62.02	22.54	-63.7	22.96	-16.17	--	63.08	6.19	-90.2
FEDERAL INCOME TAX	18.34	8.32	-54.6	2.90	1.10	-62.1	19.65	4.38	-77.7
PROVINCIAL INCOME TAX	4.14	1.16	-72.7	-2.17	-3.05	--	5.34	0.85	-84.2
DEFERRED INCOME TAX	11.94	2.49	-79.1	12.58	-1.45	--	10.55	-0.37	--
NET INCOME AFTER TAXES	27.50	10.57	-61.6	9.65	-14.77	--	27.54	1.33	-95.2
EXTRAORDINARY GAINS OR LOSSES	-13.69	-1.49	--	-5.51	-11.72	--	0.49	-22.08	--
NET INCOME AFTER EXTR. ITEMS	13.81	9.09	-34.2	4.13	-26.49	--	28.04	-20.75	--
INTERNAL CASH FLOW	61.62	36.58	-40.6	54.17	29.82	-45.0	63.91	35.33	-44.7
RATIOS	(%)	(%)		(%)	(%)		(%)	(%)	
NATURAL GAS AS A PERCENT OF TOTAL PRODUCTION	29.1	27.0	N/A	58.7	57.6	N/A	42.8	42.1	N/A
OIL SUBJECT TO OLD OIL ROYALTY AS A PERCENT OF CONVENTIONAL OIL PRODUCTION	57.4	49.6	N/A	43.7	39.5	N/A	58.8	56.4	N/A

SCHEDULE 2(b)

FINANCIAL PERFORMANCE FOR MAIN BUSINESS SEGMENTS

DOWNSTREAM OPERATIONS

	TOTAL DOWNSTREAM			PETRO-CHEMICALS AND OTHER			TOTAL OIL PRODUCTS OPERATIONS (1)					
	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($/M3)	1986	CHANGE (%)
TOTAL REVENUE	34076	26376	-22.6	3873	2752	-29.0	30203	23624	-21.8	356.09	294.29	-17.4
SALES, EXCISE & OTHER TAXES	2314	2972	28.4	8	0	-95.9	2306	2972	28.9	27.51	37.50	36.3
COST OF GOODS SOLD	26976	17945	-33.5	3244	2094	-35.4	23732	15851	-33.2	279.74	196.97	-29.6
OPERATING COSTS	3252	3164	-2.7	309	309	-0.2	2942	2856	-2.9	34.58	35.42	2.4
R&D COSTS (EXCLUD. OIL SAND)	80	70	-12.8	27	26	-1.8	53	44	-18.3	0.64	0.55	-13.6
OTHER EXPENSES	43	52	20.8	-1	0	--	44	52	18.2	0.42	0.52	22.3
CASH INCOME BEFORE INT.& TAXES	1411	2172	54.0	285	322	12.7	1125	1850	64.4	13.20	23.33	76.8
INTEREST EXPENSES	201	112	-44.3	76	18	-75.7	126	94	-25.3	1.41	1.08	-23.3
CASH INCOME BEFORE TAXES	1209	2060	70.3	210	303	44.6	1000	1756	75.7	11.78	22.25	88.8
CURRENT INCOME TAX	126	419	231.5	-35	46	--	162	372	130.2	1.92	4.69	144.4
INTERNAL CASH FLOW	1083	1641	51.5	245	257	4.8	838	1384	65.2	9.86	17.56	78.0
DEPREC.& OTHER NON-CASH CHG.	856	625	-27.0	186	207	11.4	670	418	-37.6	7.91	5.19	-34.4
INCOME AFTER CURR. INCOME TAX	227	1016	347.2	59	50	-15.9	168	966	--	1.95	12.37	--
DEFERRED INCOME TAX	-116	-4	--	-18	-25	--	-98	21	--	-1.20	0.21	--
NET INCOME AFTER TAXES	344	1020	196.8	78	75	-3.0	266	945	255.1	3.15	12.16	285.6

	NATIONAL – REFINERS-MARKETERS –			REGIONAL – REFINERS-MARKETERS –		
	1985 ($/M3)	1986	CHANGE (%)	1985 ($/M3)	1986	CHANGE (%)
TOTAL REVENUE	360.08	297.48	-17.4	342.90	285.69	-16.7
SALES, EXCISE & OTHER TAXES	28.21	38.31	35.8	25.20	35.33	40.2
COST OF GOODS SOLD	282.23	197.60	-30.0	271.54	195.27	-28.1
OPERATING COSTS	37.17	39.11	5.2	26.02	25.46	-2.1
R&D COSTS (EXCLUD. OIL SAND)	0.78	0.69	-10.6	0.18	0.16	-7.6
OTHER EXPENSES	-0.00	-0.01	--	1.83	1.95	6.3
CASH INCOME BEFORE INT.& TAXES	11.70	21.78	86.1	18.13	27.52	51.8
INTEREST EXPENSES	0.59	0.01	-98.2	4.13	3.97	-3.8
CASH INCOME BEFORE TAXES	11.11	21.77	95.9	14.00	23 55	68.2
CURRENT INCOME TAX	1.47	5.54	276.3	3.40	2.43	-28.7
INTERNAL CASH FLOW	9.64	16.23	68.4	10.60	21.12	99.3
DEPREC.& OTHER NON-CASH CHG.	7.64	4.26	-44.3	8.79	7.71	-12.4
INCOME AFTER CURR. INCOME TAX	2.00	11.98	--	1.80	13.42	--
DEFERRED INCOME TAX	-1.45	-0.35	--	-0.37	1.72	--
NET INCOME AFTER TAXES	3.45	12.33	257.5	2.18	11.70	--
RATIOS	(%)	(%)		(%)	(%)	
'CLEAN PRODUCTS' SALES AS A % OF TOTAL SALES VOLUME	81.21	81.89	0.8	77.79	80.33	3.3
NET SALES IN CANADA AS A % OF TOTAL SALES VOLUME	91.97	92.26	0.3	85.19	89.58	5.1
EXPORT SALES AS A % OF TOTAL SALES VOLUME	6.69	5.68	-15.1	13.53	9.33	-31.0

(1) THE CALCULATION OF UNIT COSTS AND REVENUES IS BASED ON TOTAL SALES VOLUME DATA FOR THE AGGREGATES MENTIONED.

SCHEDULE 3

SOURCES AND USES OF FUNDS

	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
CASH GENERATED BY OPERATION	11467	7538	-34.3	6119	3157	-48.4	5348	4381	-18.1
NET INCREASE IN LONG-TERM DEBT	2059	1911	-7.2	1502	1525	1.5	558	387	-30.7
ISSUE OF SHARES	1959	1984	1.3	1463	1747	19.4	495	237	-52.2
GRANTS (PIP & OTHERS)	2009	1128	-43.9	1744	940	-46.1	265	188	-29.2
ALL OTHER SOURCES	3937	4562	15.9	3209	3518	9.6	728	1044	43.4
WORKING CAPITAL DECREASE	2815	3842	36.5	1678	1758	4.8	1138	2084	83.2
TOTAL SOURCES OF FUNDS	24246	20965	-13.5	15715	12645	-19.5	8532	8320	-2.5
TOTAL CAPITAL EXPEND.IN CANADA	10917	7400	-32.2	6392	4041	-36.8	4526	3359	-25.8
CAPITAL EXPENDITURE IN U.S.A.	681	136	-80.0	565	114	-79.7	116	22	-81.3
OTHER FOREIGN CAPITAL EXPEND.	401	290	-27.6	381	266	-30.4	20	25	24.8
TOTAL FOREIGN CAPITAL EXPEND.	1082	427	-60.6	946	380	-59.8	136	47	-65.8
TOTAL COMPANY CAPITAL EXPEND.	11999	7827	-34.8	7337	4421	-39.7	4662	3405	-27.0
DIVIDENDS: COMMON SHARES	1509	2254	49.4	597	316	-47.0	911	1937	112.6
PREFERRED SHARES	281	294	4.7	234	254	8.5	47	40	-14.6
TOTAL	1790	2548	42.4	832	571	-31.4	958	1977	106.4
REDUCTION OF EQUITY	528	452	-14.3	418	71	-83.1	110	381	248.1
TOTAL DIVIDEND & EQUITY REDUC.	2317	3000	29.5	1250	642	-48.7	1067	2358	120.9
NET DECREASE IN LONG-TERM DEBT	1884	2524	33.9	1391	1452	4.4	493	1072	117.3
ALL OTHER APPLICATIONS	5909	6702	13.4	4531	5719	26.2	1378	983	-28.7
WORKING CAPITAL INCREASE	2136	913	-57.3	1205	411	-65.9	932	502	-46.1
TOTAL APPLICATIONS OF FUNDS	24246	20965	-13.5	15715	12645	-19.5	8532	8320	-2.5
	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
CASH GENERATED BY OPERATION	4097	3759	-8.2	2048	1155	-43.6	5323	2624	-50.7
NET INCREASE IN LONG-TERM DEBT	449	539	20.3	1038	353	-66.0	572	1019	78.0
ISSUE OF SHARES	865	24	-97.3	846	1422	68.0	248	539	117.4
GRANTS (PIP & OTHERS)	680	369	-45.8	499	312	-37.5	830	447	-46.1
ALL OTHER SOURCES	968	543	-43.9	1687	1451	-13.9	1283	2568	100.2
WORKING CAPITAL DECREASE	1324	773	-41.6	709	349	-50.8	782	2721	247.7
TOTAL SOURCES OF FUNDS	8382	6006	-28.3	6827	5042	-26.1	9037	9916	9.7
TOTAL CAPITAL EXPEND.IN CANADA	3972	2787	-29.8	2666	1671	-37.3	4279	2942	-31.3
CAPITAL EXPENDITURE IN U.S.A.	0	0	-86.5	232	42	-82.1	448	95	-78.9
OTHER FOREIGN CAPITAL EXPEND.	59	22	-63.4	314	214	-31.9	28	55	97.9
TOTAL FOREIGN CAPITAL EXPEND.	59	22	-63.5	547	256	-53.2	476	149	-68.7
TOTAL COMPANY CAPITAL EXPEND.	4031	2809	-30.3	3213	1927	-40.0	4755	3091	-35.0
DIVIDENDS: COMMON SHARES	602	619	2.8	182	35	-80.7	725	1600	120.6
PREFERRED SHARES	140	113	-19.5	83	81	-1.8	58	100	72.2
TOTAL	742	731	-1.4	265	117	-55.9	783	1700	117.0
REDUCTION OF EQUITY	93	168	80.1	239	89	-62.9	195	196	0.1
TOTAL DIVIDEND & EQUITY REDUC.	835	899	7.7	504	205	-59.3	979	1896	93.7
NET DECREASE IN LONG-TERM DEBT	336	768	128.5	921	1233	33.9	627	522	-16.7
ALL OTHER APPLICATIONS	2269	1300	-42.7	1827	1197	-34.5	1813	4205	132.0
WORKING CAPITAL INCREASE	911	231	-74.6	361	479	32.6	864	202	-76.6
TOTAL APPLICATIONS OF FUNDS	8382	6006	-28.3	6827	5042	-26.1	9037	9916	9.7

SCHEDULE 4

UPSTREAM CANADIAN CAPITAL EXPENDITURES BY LOCATION

	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
	TOTAL CANADIAN			PROVINCES			CANADA LANDS		
TOTAL INDUSTRY									
LAND & LEASE, GEOL.& GEOPH.	1724	1050	-39.1	1588	968	-39.0	137	83	-39.5
EXPLORATION DRILLING	3206	2173	-32.2	1430	1049	-26.6	1776	1124	-36.7
TOTAL EXPLORATION	4930	3224	-34.6	3017	2017	-33.2	1913	1207	-36.9
DEVELOPMENT DRILLING	1518	1031	-32.1	1482	1013	-31.6	36	17	-51.7
PRODUCTION	1708	1293	-24.3	1680	1286	-23.4	28	6	-78.1
NON-CONV.HEAVY OIL & OIL SANDS	1131	599	-47.0	1131	599	-47.0	0	0	--
TOTAL UPSTREAM	9286	6146	-33.8	7309	4916	-32.7	1977	1231	-37.7
CANADIAN-CONTROLLED COMPANIES									
LAND & LEASE, GEOL.& GEOPH.	1003	557	-44.4	899	512	-43.1	104	46	-56.0
EXPLORATION DRILLING	2489	1592	-36.0	961	607	-36.9	1528	986	-35.5
TOTAL EXPLORATION	3492	2149	-38.5	1860	1118	-39.9	1632	1031	-36.8
DEVELOPMENT DRILLING	942	554	-41.1	931	552	-40.8	10	3	-75.0
PRODUCTION	831	617	-25.8	831	617	-25.8	0	0	127.3
NON-CONV.HEAVY OIL & OIL SANDS	276	203	-26.6	276	203	-26.6	0	0	--
TOTAL UPSTREAM	5541	3523	-36.4	3899	2489	-36.2	1642	1034	-37.0
FOREIGN-CONTROLLED COMPANIES									
LAND & LEASE, GEOL.& GEOPH.	722	493	-31.6	688	456	-33.7	33	37	12.2
EXPLORATION DRILLING	716	581	-18.8	468	443	-5.5	248	139	-44.0
TOTAL EXPLORATION	1438	1075	-25.3	1157	899	-22.3	281	176	-37.4
DEVELOPMENT DRILLING	576	477	-17.3	550	462	-16.1	26	15	-42.4
PRODUCTION	877	676	-22.9	849	670	-21.1	28	6	-78.2
NON-CONV.HEAVY OIL & OIL SANDS	854	396	-53.6	854	396	-53.6	0	0	--
TOTAL UPSTREAM	3745	2623	-30.0	3410	2426	-28.9	335	197	-41.2

SCHEDULE 5

CAPITAL EXPENDITURES BY ACTIVITY

	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
EXPLORATION	4930	3224	-34.6	3492	2149	-38.5	1438	1075	-25.3
DEVELOPMENT	1518	1031	-32.1	942	554	-41.1	576	477	-17.3
PRODUCTION	1708	1293	-24.3	831	617	-25.8	877	676	-22.9
OIL SANDS	1131	599	-47.0	276	203	-26.6	854	396	-53.6
TOTAL UPSTREAM	9286	6146	-33.8	5541	3523	-36.4	3745	2623	-30.0
TOTAL DOWNSTREAM	941	793	-15.7	433	334	-22.7	508	458	-9.8
URANIUM	1	0	-97.8	0	0	--	1	0	-97.8
COAL	79	60	-24.6	10	36	277.2	69	23	-66.4
ALL OTHERS	611	401	-34.3	408	147	-63.9	203	254	25.3
TOTAL CAPITAL EXPEND.IN CANADA	10917	7400	-32.2	6392	4041	-36.8	4526	3359	-25.8
TOTAL CAPITAL EXPEND. ABROAD	1082	427	-60.6	946	380	-59.8	136	47	-65.8
TOTAL COMPANY CAPITAL EXPEND.	11999	7827	-34.8	7337	4421	-39.7	4662	3405	-27.0
	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
EXPLORATION	1245	889	-28.6	1399	894	-36.1	2286	1441	-37.0
DEVELOPMENT	325	279	-14.0	534	331	-38.1	658	420	-36.1
PRODUCTION	586	326	-44.4	442	319	-27.9	679	647	-4.7
OIL SANDS	754	338	-55.2	84	55	-34.9	293	206	-29.5
TOTAL UPSTREAM	2910	1833	-37.0	2459	1598	-35.0	3916	2715	-30.7
TOTAL DOWNSTREAM	758	679	-10.5	21	5	-74.0	162	109	-33.0
URANIUM	0	0	-97.7	0	0	--	0	0	-100.0
COAL	61	23	-61.5	1	35	--	17	1	-92.6
ALL OTHERS	243	252	3.8	185	33	-82.3	183	116	-36.2
TOTAL CAPITAL EXPEND.IN CANADA	3972	2787	-29.8	2666	1671	-37.3	4279	2942	-31.3
TOTAL CAPITAL EXPEND. ABROAD	59	22	-63.5	547	256	-53.2	476	149	-68.7
TOTAL COMPANY CAPITAL EXPEND.	4031	2809	-30.3	3213	1927	-40.0	4755	3091	-35.0

SCHEDULE 6

BALANCE SHEET

	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
CASH, INVESTM.& MARK. SEC.	5246	4350	-17.1	2561	1835	-28.3	2686	2514	-6.4
ACCNTS RECEIV: AFFILIATE	1711	541	-68.4	412	209	-49.2	1299	332	-74.5
ALL OTHER	9305	6167	-33.7	5008	3294	-34.2	4297	2873	-33.2
TOTAL	11016	6708	-39.1	5420	3503	-35.4	5596	3204	-42.7
INVENTORIES	6072	3823	-37.0	2571	1515	-41.1	3501	2308	-34.1
OTHER CURRENT ASSETS	996	674	-32.3	656	321	-51.1	340	353	4.0
TOTAL CURRENT ASSETS	23330	15555	-33.3	11207	7175	-36.0	12123	8380	-30.9
PROPERTY PLANT & EQUIPMENT	88216	90213	2.3	53637	53868	0.4	34579	36345	5.1
LESS:ACC DEPL, DEPR & AM.	19861	24978	25.8	10286	13910	35.2	9576	11068	15.6
NET FIXED ASSETS	65362	61575	-5.8	40381	36263	-10.2	24981	25312	1.3
OTHER LONG-TERM ASSETS	8716	8392	-3.7	6103	6298	3.2	2613	2094	-19.8
TOTAL ASSETS	97408	85522	-12.2	57691	49736	-13.8	39717	35786	-9.9
ACCNTS PAYABLE: AFFILIATES	1009	1165	15.5	413	181	-56.2	596	985	65.2
OTHER	9278	5825	-37.2	5021	3111	-38.0	4257	2714	-36.3
TOTAL	10287	6990	-32.0	5434	3292	-39.4	4853	3698	-23.8
CURRENT PORTION OF L.T.D.	2432	1227	-49.5	865	646	-25.3	1567	581	-62.9
OTHER CURRENT LIABILITIES	3195	2922	-8.5	2224	1938	-12.9	971	984	1.3
TOTAL CURRENT LIABILITIES	15914	11139	-30.0	8523	5876	-31.1	7391	5263	-28.8
LONG TERM DEBT	24438	23884	-2.3	17665	17819	0.9	6773	6064	-10.5
PREPAYMENT FOR DEF.PROD.	2324	2007	-13.6	1297	1166	-10.1	1027	841	-18.0
ACCUM. DEF. INCOME TAX	12408	11136	-10.2	7150	5873	-17.9	5258	5263	0.1
OTHER L.T. LIABILITIES	2236	2579	15.3	1227	1327	8.2	1009	1252	24.0
EQUITY: COMMON SHARES	12193	12255	0.5	8830	8826	-0.0	3363	3430	2.0
PREFERRED SHARES	6061	6727	11.0	5428	6182	13.9	633	546	-13.8
RETAINED EARNING	17537	11517	-34.3	5258	257	-95.1	12279	11260	-8.3
OTHER EQUITY	4297	4276	-0.5	2313	2410	4.2	1985	1867	-5.9
TOTAL EQUITY	40088	34777	-13.2	21828	17674	-19.0	18259	17102	-6.3
TOTAL LIA,DEF TAXES & EQUITY	97408	85522	-12.2	57691	49736	-13.8	39717	35786	-9.9
WORKING CAPITAL	7416	4416	-40.5	2684	1299	-51.6	4732	3117	-34.1
	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
CASH, INVESTM.& MARK. SEC.	1132	2137	88.7	888	907	2.1	3226	1306	-59.5
ACCNTS RECEIV: AFFILIATE	318	77	-75.8	287	245	-14.8	1105	219	-80.2
ALL OTHER	5105	3483	-31.8	1220	866	-29.0	2980	1819	-39.0
TOTAL	5423	3560	-34.4	1507	1110	-26.3	4085	2038	-50.1
INVENTORIES	5171	3111	-39.8	149	116	-22.4	751	596	-20.7
OTHER CURRENT ASSETS	484	523	8.1	85	67	-20.7	427	84	-80.4
TOTAL CURRENT ASSETS	12211	9331	-23.6	2629	2200	-16.3	8489	4023	-52.6
PROPERTY PLANT & EQUIPMENT	32123	33683	4.9	20956	20435	-2.5	35136	36095	2.7
LESS:ACC DEPL, DEPR & AM.	9511	10728	12.8	4479	5454	21.8	5872	8796	49.8
NET FIXED ASSETS	22613	22955	1.5	16431	14897	-9.3	26319	23723	-9.9
OTHER LONG-TERM ASSETS	1862	1694	-9.0	1566	1330	-15.1	5288	5368	1.5
TOTAL ASSETS	36686	33980	-7.4	20626	18427	-10.7	40096	33115	-17.4
ACCNTS PAYABLE: AFFILIATES	599	381	-36.4	323	238	-26.5	87	547	--
OTHER	4969	3291	-33.8	1163	832	-28.4	3146	1702	-45.9
TOTAL	5568	3672	-34.0	1486	1070	-28.0	3233	2248	-30.5
CURRENT PORTION OF L.T.D.	145	158	8.7	676	530	-21.6	1610	539	-66.5
OTHER CURRENT LIABILITIES	1480	1028	-30.5	544	613	12.6	1171	1281	9.4
TOTAL CURRENT LIABILITIES	7193	4858	-32.5	2707	2213	-18.2	6015	4069	-32.4
LONG TERM DEBT	3584	3373	-5.9	8009	7059	-11.9	12844	13452	4.7
PREPAYMENT FOR DEF.PROD.	452	391	-13.5	650	582	-10.4	1221	1033	-15.4
ACCUM. DEF. INCOME TAX	5292	5351	1.1	2081	1734	-16.7	5034	4051	-19.5
OTHER L.T. LIABILITIES	699	690	-1.3	835	852	2.1	702	1037	47.6
EQUITY: COMMON SHARES	6290	5990	-4.8	3242	3478	7.3	2661	2787	4.7
PREFERRED SHARES	3224	2910	-9.7	1335	2218	66.1	1502	1600	6.5
RETAINED EARNING	9192	9957	8.3	195	-1536	--	8150	3097	-62.0
OTHER EQUITY	760	460	-39.5	1571	1827	16.2	1966	1990	1.2
TOTAL EQUITY	19465	19317	-0.8	6344	5986	-5.6	14279	9474	-33.7
TOTAL LIA,DEF TAXES & EQUITY	36686	33980	-7.4	20626	18427	-10.7	40096	33115	-17.4
WORKING CAPITAL	5019	4473	-10.9	-78	-12	--	2475	-45	--

SCHEDULE 7

VOLUME AND VALUE OF PRODUCTION

BY PROVINCE

	ALBERTA			BRITISH COLUMBIA			SASKATCHEWAN		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
VOLUME (OIL EQUIVALENT)	('000 M^3)		(%)	('000 M^3)		(%)	('000 M^3)		(%)
CONV. CRUDE - NORP	21798.6	22369.7	2.6	741.6	771.2	4.0	5624.7	6071.4	7.9
CONV. CRUDE - OTHER	32145.1	27992.1	-12.9	1100.5	1063.2	-3.4	3467.4	2798.2	-19.3
CONVENTIONAL CRUDE OIL	53943.6	50361.8	-6.6	1842.1	1834.4	-0.4	9092.1	8869.6	-2.4
OIL SANDS	11959.7	15087.1	26.1	0.0	0.0	--	13.4	9.5	-29.1
MARKETABLE NATURAL GAS	57086.9	53446.2	-6.4	5815.5	5324.3	-8.4	1154.8	1406.4	21.8
GAS PLANT LIQUIDS	12074.6	11632.2	-3.7	81.8	193.9	137.0	4.0	6.0	50.0
TOTAL - VOLUME	135064.8	130527.3	-3.4	7739.4	7352.6	-5.0	10264.3	10291.5	0.3
VALUE	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
CONV. CRUDE - NORP	5126.5	2677.8	-47.8	178.1	102.4	-42.5	1183.3	598.0	-49.5
CONV. CRUDE - OTHER	6625.6	3325.1	-49.8	227.3	130.8	-42.4	681.8	299.2	-56.1
CONVENTIONAL CRUDE OIL	11752.1	6002.9	-48.9	405.4	233.2	-42.5	1865.2	897.3	-51.9
OIL SANDS	2839.8	1603.1	-43.6	0.0	0.0	--	2.5	0.6	-75.7
MARKETABLE NATURAL GAS	5676.4	4461.3	-21.4	473.2	345.0	-27.1	79.3	94.2	18.8
GAS PLANT LIQUIDS	2264.6	1789.7	-21.0	14.1	22.3	57.8	1.0	0.8	-21.3
TOTAL - VALUE	22533.0	13857.0	-38.5	892.7	600.6	-32.7	1947.9	992.8	-49.0

BY COMPANY GROUP

	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
VOLUME (OIL EQUIVALENT)	('000 M^3)		(%)	('000 M^3)		(%)	('000 M^3)		(%)
CONV. CRUDE - NORP	29503.2	30978.4	5.0	14240.0	14679.6	3.1	15263.2	16298.8	6.8
CONV. CRUDE - OTHER	37125.6	32178.1	-13.3	15312.7	14123.6	-7.8	21813.0	18054.5	-17.2
CONVENTIONAL CRUDE OIL	66628.8	63156.5	-5.2	29552.6	28803.2	-2.5	37076.2	34353.3	-7.3
OIL SANDS	11973.1	15096.6	26.1	4745.3	4883.3	2.9	7227.8	10213.3	41.3
MARKETABLE NATURAL GAS	64520.3	60592.2	-6.1	36477.1	34457.0	-5.5	28043.2	26135.2	-6.8
GAS PLANT LIQUIDS	12166.6	11838.4	-2.7	7107.4	7284.5	2.5	5059.2	4553.9	-10.0
TOTAL - VOLUME	155288.8	150683.7	-3.0	77882.4	75428.0	-3.2	77406.4	75255.7	-2.8
VALUE	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
CONV. CRUDE - NORP	6748.7	3515.5	-47.9	3196.6	1630.1	-49.0	3552.1	1885.4	-46.9
CONV. CRUDE - OTHER	7620.1	3794.9	-50.2	3140.2	1615.0	-48.6	4479.8	2179.9	-51.3
CONVENTIONAL CRUDE OIL	14368.7	7310.4	-49.1	6336.9	3245.1	-48.8	8031.9	4065.3	-49.4
OIL SANDS	2842.3	1603.7	-43.6	1162.6	586.4	-49.6	1679.7	1017.2	-39.4
MARKETABLE NATURAL GAS	6272.1	4941.0	-21.2	3530.1	2786.5	-21.1	2742.0	2154.4	-21.4
GAS PLANT LIQUIDS	2280.8	1813.6	-20.5	1337.8	1237.2	-7.5	943.0	576.4	-38.9
TOTAL - VALUE	25764.0	15668.6	-39.2	12367.4	7855.2	-36.5	13396.6	7813.4	-41.7

	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
	1985	1986	CHANGE	1985	1986	CHANGE	1985	1986	CHANGE
VOLUME (OIL EQUIVALENT)	('000 M^3)		(%)	('000 M^3)		(%)	('000 M^3)		(%)
CONV. CRUDE - NORP	9871.6	10919.1	10.6	6452.5	7057.1	9.4	13179.1	13002.2	-1.3
CONV. CRUDE - OTHER	13296.0	10755.7	-19.1	4998.3	4612.1	-7.7	18831.3	16810.3	-10.7
CONVENTIONAL CRUDE OIL	23167.6	21674.8	-6.4	11450.8	11669.2	1.9	32010.4	29812.5	-6.9
OIL SANDS	7284.1	10147.7	39.3	172.8	189.8	9.8	4516.2	4759.1	5.4
MARKETABLE NATURAL GAS	14429.2	13543.8	-6.1	17678.3	17643.4	-0.2	32412.8	29405.0	-9.3
GAS PLANT LIQUIDS	4635.4	4868.4	5.0	807.9	1140.2	41.1	6723.3	5829.8	-13.3
TOTAL - VOLUME	49516.3	50234.7	1.5	30109.8	30642.6	1.8	75662.7	69806.4	-7.7
VALUE	($ MILLIONS)		(%)	($ MILLIONS)		(%)	($ MILLIONS)		(%)
CONV. CRUDE - NORP	2187.2	1159.0	-47.0	1491.2	836.0	-43.9	3070.2	1520.6	-50.5
CONV. CRUDE - OTHER	2730.0	1290.6	-52.7	960.4	508.1	-47.1	3929.7	1996.2	-49.2
CONVENTIONAL CRUDE OIL	4917.2	2449.5	-50.2	2451.7	1344.1	-45.2	6999.9	3516.7	-49.8
OIL SANDS	1703.8	1023.3	-39.9	39.0	13.1	-66.4	1099.5	567.2	-48.4
MARKETABLE NATURAL GAS	1403.6	1092.3	-22.2	1713.1	1420.3	-17.1	3155.4	2428.4	-23.0
GAS PLANT LIQUIDS	817.3	575.9	-29.5	154.2	139.6	-9.5	1309.4	1098.1	-16.1
TOTAL - VALUE	8841.9	5141.1	-41.9	4357.9	2917.1	-33.1	12564.2	7610.4	-39.4

SCHEDULE 8

UPSTREAM OPERATING COSTS AND ROYALTIES

BY PROVINCE

	ALBERTA			BRITISH COLUMBIA			SASKATCHEWAN		
	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
FIELD, WELL & GATH. OPERATIONS	1743.7	1844.5	5.8	112.3	88.7	-21.0	308.3	280.0	-9.2
NATURAL GAS PROCESSING PLANTS	436.4	431.7	-1.1	4.0	6.4	61.8	17.4	11.7	-32.6
OIL SANDS	1142.2	1114.3	-2.4	0.0	0.0	--	1.9	1.1	-42.6
TAXES (EXCLUDING INCOME TAXES)	139.8	134.4	-3.8	4.1	3.8	-7.0	10.6	11.8	11.6
OPERATING OVERHEAD	768.8	747.0	-2.8	18.3	17.9	-1.9	70.3	62.5	-11.2
TOTAL OPERATING COST	4230.7	4272.0	1.0	138.7	116.9	-15.7	408.5	367.1	-10.1
FEDERAL CROWN ROYALTIES	0.0	0.0	--	0.0	0.0	--	0.0	0.0	--
PROVINCIAL ROYALTIES & TAXES	4663.6	2287.9	-50.9	185.9	92.4	-50.3	412.7	171.2	-58.5
NON-CROWN ROYALTIES & OTHER	941.5	492.8	-47.7	17.2	8.8	-48.8	79.3	44.9	-43.4
TOTAL ROYALTIES	5605.1	2780.7	-50.4	203.0	101.2	-50.2	492.0	216.1	-56.1

BY COMPANY GROUP

	TOTAL INDUSTRY			CANADIAN CONTROLLED			FOREIGN CONTROLLED		
	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
FIELD, WELL & GATH. OPERATIONS	2213.5	2256.2	1.9	1106.2	1141.0	3.1	1107.4	1115.2	0.7
NATURAL GAS PROCESSING PLANTS	478.5	473.1	-1.1	281.9	307.5	9.1	196.6	165.5	-15.8
OIL SANDS	1144.1	1115.4	-2.5	479.9	435.7	-9.2	664.1	679.7	2.3
TAXES (EXCLUDING INCOME TAXES)	159.6	155.7	-2.4	58.5	71.5	22.2	101.1	84.2	-16.7
OPERATING OVERHEAD	886.6	851.8	-3.9	361.8	369.8	2.2	524.8	482.0	-8.2
TOTAL OPERATING COST	4882.3	4852.3	-0.6	2288.3	2325.6	1.6	2594.0	2526.7	-2.6
FEDERAL CROWN ROYALTIES	9.1	4.8	-47.4	1.0	0.0	-100.0	8.2	4.8	-41.1
PROVINCIAL ROYALTIES & TAXES	5279.7	2561.4	-51.5	2288.2	1166.6	-49.0	2991.5	1394.7	-53.4
NON-CROWN ROYALTIES & OTHER	1058.3	556.7	-47.4	450.4	264.2	-41.4	607.9	292.6	-51.9
TOTAL ROYALTIES	6347.2	3122.9	-50.8	2739.6	1430.8	-47.8	3607.6	1692.1	-53.1

	INTEGRATEDS & REFINERS			JUNIOR O&G PRODUCERS			SENIOR O&G PRODUCERS		
	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)	1985 ($ MILLIONS)	1986	CHANGE (%)
FIELD, WELL & GATH. OPERATIONS	673.4	591.5	-12.2	487.3	530.5	8.9	1052.8	1134.2	7.7
NATURAL GAS PROCESSING PLANTS	128.1	126.3	-1.4	61.8	73.2	18.5	288.6	273.6	-5.2
OIL SANDS	672.6	679.3	1.0	17.6	13.8	-21.4	453.8	422.3	-7.0
TAXES (EXCLUDING INCOME TAXES)	87.6	70.6	-19.5	18.0	17.2	-4.1	54.0	67.9	25.8
OPERATING OVERHEAD	354.7	311.6	-12.2	129.3	100.4	-22.4	402.6	439.9	9.3
TOTAL OPERATING COST	1916.5	1779.3	-7.2	714.0	735.2	3.0	2251.8	2337.8	3.8
FEDERAL CROWN ROYALTIES	7.3	3.5	-51.9	0.0	0.0	--	1.9	1.3	-29.7
PROVINCIAL ROYALTIES & TAXES	1696.8	742.5	-56.2	861.8	480.7	-44.2	2721.0	1338.2	-50.8
NON-CROWN ROYALTIES & OTHER	456.9	209.2	-54.2	247.2	167.5	-32.2	354.2	180.1	-49.2
TOTAL ROYALTIES	2161.0	955.2	-55.8	1109.0	648.2	-41.6	3077.1	1519.6	-50.6

SCHEDULE 9

INCOME AND EXPENSE STATEMENT: 1982-1986

	UPSTREAM ($ MILLIONS)						DOWNSTREAM ($ MILLIONS)					
	1982	1983	1984	1985	1986	GROWTH RATE	1982	1983	1984	1985	1986	GROWTH RATE
TOTAL REVENUES	20973	23887	26357	27618	16678	-5.6	31263	30660	31882	34076	26376	-4.2
ROYALTIES & OTHER PYMT	5604	6087	6393	6267	3077	-13.9	0	0	0	0	0	--
PGRT & OTHER TAXES	1945	2031	2224	1996	434	-31.3	1811	1777	1935	2314	2972	13.2
TOTAL REVENUE AFTER ROY.	13424	15769	17740	19354	13167	-0.5	29452	28883	29948	31762	23404	-5.6
COST OF GOODS SOLD	0	0	0	0	0	--	25115	25351	25568	26976	17945	-8.1
INTEREST EXPENSES	1555	1420	1621	1557	1655	1.6	260	298	361	201	112	-19.0
OPERATING COSTS	3516	3741	4232	4759	4729	7.7	2824	2677	2714	3252	3164	2.9
R&D COST(EXCL. OIL SAND)	72	51	64	68	69	-1.1	68	62	68	80	70	0.8
OTHER EXPENSES	608	579	557	584	795	6.9	159	189	175	43	52	-24.2
OIL SANDS R&D EXPENSED	57	35	27	36	33	-12.3	0	0	0	0	0	--
E&D EXPENSED	979	824	746	874	959	-0.5	1	0	0	0	0	--
DEPRECIATION	542	684	723	834	1068	18.5	446	572	612	686	696	11.8
DEPLETION	812	1084	1366	1684	1935	24.3	0	0	0	0	0	--
WRITE-OFFS & AMORT.	418	1045	604	522	852	19.5	26	61	30	170	-71	--
NON-CASH CHARGES AND E&D	2807	3672	3467	3950	4848	14.6	473	634	642	856	625	7.2
INCOME BEFORE TAXES	4865	6306	7799	8435	1071	-31.5	519	-307	420	353	1434	28.9
FEDERAL INCOME TAX	1686	2242	2304	2482	758	-18.1	-175	-346	-17	107	346	--
PROVINCIAL INCOME TAX	174	388	617	558	32	-34.2	-71	-118	-3	19	73	--
CURRENT INCOME TAX	1860	2630	2921	3039	790	-19.3	-246	-444	-20	126	419	--
INC. AFT. CURR. INC. TAX	3005	3676	4878	5396	281	-44.7	765	137	441	227	1016	7.3
DEFERRED INCOME TAX	1035	1219	1797	1731	57	-51.5	424	213	86	-116	-4	--
NET INCOME AFTER TAXES	1970	2457	3081	3665	224	-41.9	376	-77	355	344	1020	28.4
EXTR. GAINS OR LOSSES	100	75	9	-807	-1923	--	44	-9	35	-129	-213	--
NET INC. AFT. EXTR. ITEMS	2071	2532	3090	2858	-1700	--	420	-86	389	215	807	17.7
INTERNAL CASH FLOW	5812	7348	8345	9346	5129	-3.1	1273	770	1082	1083	1641	6.6

	OTHER AND FOREIGN OPERATIONS ($ MILLIONS)						TOTAL OPERATIONS ($ MILLIONS)					
	1982	1983	1984	1985	1986	GROWTH RATE	1982	1983	1984	1985	1986	GROWTH RATE
TOTAL REVENUES	4752	4538	4682	4349	4025	-4.1	56988	59085	62922	66043	47079	-4.7
ROYALTIES & OTHER PYMT	0	0	0	0	0	--	5604	6087	6393	6267	3077	-13.9
PGRT & OTHER TAXES	204	76	99	167	108	-14.8	3960	3885	4258	4477	3514	-2.9
TOTAL REVENUE AFTER ROY.	4548	4462	4584	4183	3917	-3.7	47200	49114	52272	55299	40488	-3.8
COST OF GOODS SOLD	1265	1678	1242	1015	1094	-3.6	26380	27029	26810	27992	19040	-7.8
INTEREST EXPENSES	842	774	777	680	956	3.2	2658	2493	2759	2438	2724	0.6
OPERATING COSTS	1546	1316	1288	1503	1166	-6.8	7662	7733	8234	9514	9059	4.3
R&D COST(EXCL. OIL SAND)	5	10	10	7	11	25.2	144	122	142	156	150	1.0
OTHER EXPENSES	630	181	280	165	260	-19.9	1397	949	1012	792	1107	-5.7
OIL SANDS R&D EXPENSED	0	0	0	0	0	--	57	35	27	36	33	-12.3
E&D EXPENSED	92	63	58	68	30	-24.2	1071	887	805	941	990	-2.0
DEPRECIATION	308	311	369	275	299	-0.8	1297	1568	1704	1796	2063	12.3
DEPLETION	220	239	282	378	612	29.1	1032	1322	1648	2063	2548	25.3
WRITE-OFFS & AMORT.	451	825	113	204	113	-29.2	895	1932	747	895	894	-0.0
NON-CASH CHARGES AND E&D	1072	1438	822	925	1055	-0.4	4352	5744	4931	5731	6528	10.7
INCOME BEFORE TAXES	-812	-935	164	-113	-625	--	4606	5043	8384	8676	1881	-20.1
FEDERAL INCOME TAX	-10	35	-5	-14	-198	--	1502	1931	2282	2575	905	-11.9
PROVINCIAL INCOME TAX	-8	-15	-49	-26	-32	--	94	255	565	551	74	-6.0
CURRENT INCOME TAX	-17	20	-54	-40	-230	--	1596	2186	2847	3126	979	-11.5
INC. AFT. CURR. INC. TAX	-795	-955	218	-73	-394	--	3010	2857	5537	5550	902	-26.0
DEFERRED INCOME TAX	-129	-29	127	61	-9	--	1330	1403	2010	1675	44	-57.3
NET INCOME AFTER TAXES	-666	-925	91	-134	-386	--	1680	1454	3527	3875	858	-15.5
EXTR. GAINS OR LOSSES	22	-0	96	-142	-1223	--	167	66	140	-1077	-3359	--
NET INC. AFT. EXTR. ITEMS	-688	-926	187	-275	-1609	--	1802	1520	3667	2798	-2502	--
INTERNAL CASH FLOW	277	483	1040	852	660	24.2	7362	8601	10468	11281	7430	0.2

SCHEDULE 10

SOURCES AND USES OF FUNDS: 1982-1986

	1982	1983	1984	1985	1986	GROWTH RATE
			($ MILLIONS)			
CASH GENERATED BY OPERATIONS	7362	8601	10468	11281	7430	0.2
NET INCREASE IN LONG-TERM DEBT	3538	1834	4227	2024	1831	-15.2
ISSUE OF SHARES	3203	2151	1701	1877	1771	-13.8
GRANTS (PIP & OTHERS)	1431	1667	1818	1829	1089	-5.6
ALL OTHER SOURCES	3031	2990	5141	4023	4524	10.5
WORKING CAPITAL DECREASE	4384	1524	912	2762	3834	-3.3
TOTAL SOURCES OF FUNDS	22948	18767	24266	23797	20479	-2.8
UPSTREAM CAPITAL EXPEND.	6416	6793	7786	9110	5983	-1.7
DOWNSTREAM CAPITAL EXPEND.	2180	1611	897	751	721	-24.2
OTHER CDN. CAPITAL EXPEND.	1893	1192	922	878	532	-27.2
TOTAL CAPITAL EXP. IN CANADA	10489	9596	9604	10739	7236	-8.9
CAPITAL EXPENDITURE IN U.S.A.	575	315	288	661	130	-31.1
OTHER FOREIGN CAPITAL EXPEND.	554	417	327	401	290	-14.9
TOTAL FOREIGN CAPITAL EXPEND.	1129	732	615	1062	420	-21.9
TOTAL COMPANY CAPITAL EXPEND.	11617	10328	10219	11801	7657	-9.9
DIVIDENDS: COMMON SHARES	N/A	N/A	N/A	1500	2248	--
PREFERRED SHARES	N/A	N/A	N/A	272	289	--
TOTAL	1131	1256	1342	1772	2537	22.4
REDUCTION OF EQUITY	625	568	164	479	429	-9.0
TOTAL DIVID. & EQUITY REDUCT.	1756	1824	1506	2251	2966	14.0
NET DECREASE IN LONG-TERM DEBT	3560	1542	2490	1849	2515	-8.3
ALL OTHER APPLICATIONS	4756	3094	5569	5762	6449	7.9
WORKING CAPITAL INCREASE	1259	1979	4482	2133	893	-8.2
TOTAL APPLICATIONS OF FUNDS	22948	18767	24266	23797	20479	-2.8

GLOSSARY OF TERMS

Acquisitions--the acquisition of shares of other petroleum companies or the purchase of assets from such companies. Capital outlays for these purposes are included under the category 'All Other Uses of Funds' in monitoring reports. (Acquisitions)

All Other Sources of Funds--proceeds from the sale of assets or long-term investments and pre-payment received for future production. Also included here would be the reclassification of sizeable short-term debt to long-term such as occurred in 1984. (Autres sources de fonds)

All Other Uses of Funds--includes applications such as acquisitions, purchases of used machinery and equipment, and long-term investments. (Autres affectations de fonds)

Amortization--the charge to expense, over time, of assets, other than through depreciation, depletion, and exploration and development expensed to current operations. It also includes gains or losses on disposal of assets and write-downs of assets. (Amortissement)

Canada Lands--areas of Canada outside provincial boundaries. (Terres du Canada)

Canadian Control--in general a company is Canadian-controlled when 50% or more of its voting shares are held by Canadian residents either directly or indirectly. In a few exceptional cases, when a significant block of shares is held by Canadian residents and the remaining shares are widely held, a company may be effectively Canadian-controlled even though more than 50% of the voting shares are held by non-residents. (Contrôle canadien)

Canadian Ownership--the proportion of the total voting shares of a company held, either directly or indirectly (through other corporations), by Canadian residents. (Participation canadienne)

Capital Employed--the net book value of total assets, less current liabilities. (Capital utilisé)

Capital Expenditures--investments in new machinery, equipment, structures and resource properties, whether capitalized or charged directly to current operations, as well as intangibles (e.g. cost of leased equipment), capitalized interest and capitalized repair expenditures. (Dépenses de capital)

Current Income Tax--the portion of the provision for income taxes, both federal and provincial, pertaining to the reporting period and assumed to be currently due. (Impôt sur le revenu courant)

Debt/Equity Ratio--the ratio of long-term liabilities (over one year) to shareholders' equity (share capital plus retained earnings) at the end of a period. Depending upon their terms and conditions, preferred shares may be classified as either debt or equity (see 'long-term debt'). (Rapport d'endettement)

Deferred Income Taxes--taxes accrued and reflected as an expense in the income statement, but not payable in the financial reporting period. Income taxes are deferred, for example, when companies write off capital assets (using capital cost allowances) for income tax purposes at rates that exceed those employed in preparing their financial reports. (Impôt reporté)

Depletion--the amount charged to expense in the company's financial statements which relates to depletable assets that have been capitalized. This is not the earned depletion allowance calculated for income tax purposes. (Epuisement)

Depreciation--the amount charged to expense which relates to depreciable assets that have been capitalized. This is not the amount of capital cost allowance that is used to compute depreciation for income tax purposes. (Dépréciation)

Development Expenditures--includes drilling and well completion costs in an area of already proven oil or natural gas reserves, expenditures on field gathering and separation systems, and the cost of acquiring proven reserves. (Dépenses de mise en valeur)

Downstream Segment--includes refining, marketing, transportation and petrochemical operations. (Secteur aval)

Energy Mining--uranium and coal mining (excludes oil sands mining). (Extraction minière des ressources énergétiques)

Equity--the book value of shareholders' paid-up capital, contributed surplus and retained earnings. (Avoir propre)

Exploration Costs--include all lease fees and land acquisition costs, geological and geophysical expenditures, and exploratory drilling costs whether capitalized or expensed. Exploratory drilling is generally defined as the drilling of a well outside a proven area, or within a proven area but to a previously untested zone, in order to determine whether oil or gas reserves exist. Also included are costs of dry wells, casing and other materials and equipment abandoned in place. (Frais d'exploration)

External Sources of Funds--funds obtained from sources other than internal cash flow. Long-term debt and equity are the main examples. (Sources externes de fonds)

Full Cost Accounting--an accounting method under which all costs incurred in prospecting for reserves and in acquiring, exploring and developing properties within cost centres are initially capitalized and only charged to expense as the reserves deemed to be related to those costs are produced. Costs incurred include prospecting, leasing, acquisition, retention, exploration and development costs, and associated indirect costs (i.e. general and administrative costs). Operating costs are expensed as incurred. The other method in common use is the successful efforts method. (Méthode de capitalisation du coût entier)

Incremental Oil Revenue Tax (IORT)/Incremental Resource Royalty Tax (IRRT)--the IORT was a federal tax imposed at a rate of 50% on incremental old oil revenues after a deduction for associated incremental royalties. Income subject to the IORT or the IRRT was not subject to income tax. Both taxes were suspended on June 1, 1982 and were removed as a result of the agreement reached by the Western Accord. (Taxe sur les recettes pétrolières supplémentaires/Taxe sur les redevances supplémentaires afférentes aux ressources)

Integrated Companies--companies that individually have significant revenues in both the upstream and downstream segments. Each of these companies has sizeable refining, marketing and distribution operations. (Sociétés intégrées)

Internal Cash Flow--includes net income after tax plus exploration and development expenditures expensed in the current period, depreciation, depletion, amortization and deferred income taxes. (Ressources d'autofinancement)

Junior Producers--companies that are predominantly exploration and production oriented and that individually generate less than 1% of industry upstream revenues. (Petits producteurs)

Long-term Debt--debt that has a maturity date greater than one year. Preferred shares may be treated as long-term debt when they are redeemable for a fixed amount without conversion privileges or voting rights. (Dette à long terme)

Natural Gas and Gas Liquids Tax (NGGLT)--a federal excise tax imposed on marketable pipeline gas and natural gas liquids (NGLs). Marketable pipeline gas includes gas used in a processing or reprocessing plant, but excludes volumes reinjected into reservoirs. NGLs include ethanes, propanes, butanes or any mixtures thereof produced from gas at a processing or reprocessing plant. NGGLT was among the taxes whose elimination was agreed to in the Western Accord. (Taxe sur le gaz naturel et les liquides de gaz naturel)

New Oil Reference Price (NORP)--the price that was applied to all conventional oil from pools discovered after 1973, incremental oil recovered by the use of an enhanced recovery technique (other than waterflooding), incremental oil from any new or expanded waterflood project commencing after June 30, 1983, oil from infill wells drilled in a pre-NORP oil entity after June 30, 1983, synthetic crude oil, crude oil from Canada Lands, oil from wells in Saskatchewan producing 10 barrels a day or less and all heavy oil in Saskatchewan. The NORP was subject to a ceiling of 100% of the international price. Effective June 1, 1985, the Western Accord allowed oil producers to negotiate sales contracts directly with buyers, and allowed the market, open to international forces of supply and demand, to determine both the level of prices and price differentials between oils. (Prix de référence du nouveau pétrole)

Non-cash Charges--items expensed in the reporting period that do not require an actual financial outlay in that period, such as depreciation, depletion and amortization. (Frais non monétaires)

Non-conventional Heavy Oil--deposits of density usually greater than 934 kg/m^3 that are for the most part recoverable through enhanced recovery methods. Canadian deposits of heavy oil are typically in the range of 935 to 985 kg/m^3. Main centres are Cold Lake and Lloydminster. (Pétrole lourd non classique)

Oil Export Charge--exports of crude oil and equivalent hydrocarbons and oil products such as motor gasoline, middle distillate, heavy fuel oil and partially processed oil were subject to an export charge. After November 1, 1980, the producing provinces received 50% of all revenues accruing from export charges on crude oil and equivalent hydrocarbons. This charge was eliminated under the Western Accord. (Redevances d'exportation sur le pétrole)

Oil Sands--crude bitumen resources from deposits that are generally solid unless heated and are of a density usually greater than 985 kg/m^3. Athabasca, Peace River, Wabasca, Cold Lake and Buffalo Head Hills are the main Canadian resource areas. (Sables pétrolifères)

Other Canadian Operations--include drilling services, coal and uranium mining, metal mining, and other non-petroleum related activities. In addition, corporate activities may be included here. (Activités autres au Canada)

Petroleum Compensation Charge (PCC)--a levy imposed on refiners by the Government of Canada. Funds received from this levy were used to finance oil import compensation, to pay higher prices for production qualifying for the New Oil Reference Price (NORP) and to pay for deliveries of Canadian crude oil to Atlantic Canada and for certain exchanges of crude oil between Canada and the United States. Deregulation of oil pricing under the Western Accord eliminated the need for a compensation mechanism. (Redevances d'indemnisation pétrolière)

Petroleum Incentives Program (PIP)--provided direct incentive payments to enterprises conducting exploration and development activities in Canada. The level of incentive varied according to the area of activity and was higher for enterprises that were Canadian controlled and had specified levels of Canadian ownership as determined under the Canadian Ownership and Control Determination Act. The Government of Alberta administered and paid incentives for activities within Alberta and the Petroleum Incentives Administation of the Government of Canada funded and administered the program elsewhere in Canada. Fiscal measures agreed to under the Western Accord included the termination of the PIP program on March 31, 1986 for all activities formerly eligible to receive grants, other than exploration expenses incurred in drilling frontier wells required to satisfy commitments under existing Exploration Agreements on Canada Lands. These eligible frontier wells will continue to qualify for PIP during a further grandfathering period which will extend to no later than December 31, 1987. (Programme d'encouragement du secteur pétrolier)

Petroleum and Gas Revenue Tax (PGRT)--a 13.3% tax on production revenue net of operating costs, non-Crown royalties and, where Crown royalties or taxes based on production were payable, a 25% resource allowance. Qualifying tertiary recovery projects also reduced the tax base by eligible capital costs incurred after 1982 to the extent of pool taxable revenue. In April 1986, the existing $500,000 small producers' credit was increased to $2 million and the deduction for individuals of $10,000 of resource income from the PGRT was increased to $40,000. The Syncrude and Suncor oil sands plants were also granted a zero rate of PGRT until the end of the year. Companies in a non-profit position were allowed to offset unused new exploration and development expenditures against the PGRT. The Western Accord would have phased PGRT out of existence by January 1, 1989, but on September 8, 1986 the Government of Canada announced its termination effective October 1, 1986. PGRT was non-deductible for income tax purposes. (Taxe sur les recettes pétrolières et gazières)

Production Expenditures--includes all expenditures relating to the production of crude oil and natural gas. Expenditures on natural gas processing plants are included. (Dépenses de production)

Senior Producers--companies that are predominantly exploration and production oriented and that individually have more than 1% of industry upstream revenues. (Grands producteurs)

Successful Efforts Accounting--an accounting method by which only costs resulting directly in identifiable future benefits through discovery, acquisition or development of reserves are capitalized. Costs that do not provide identifiable future benefits are expensed as incurred, or are written off when the properties are determined to be non-productive. Such costs include those relating to geological and geophysical studies, retention of undeveloped properties, and non-productive exploration and development efforts. The other method in common use is the full cost method. (Méthode de capitalisation du coût de la recherche fructueuse)

Upstream Segment--activities and operations related to the search for, and development, production, extraction and recovery of crude oil, natural gas, natural gas liquids and sulphur, as well as the production of synthetic oil. (Secteur en amont)

Working Capital--current assets (cash, short-term investments, accounts receivable, inventories) less current liabilities (accounts payable, debts and obligations maturing in less than one year). (Fonds de roulement)

PMA TERMS OF REFERENCE

A. Mandate of the Petroleum Monitoring Agency

The Petroleum Monitoring Agency (PMA) was established to provide public and private users:

- federal and provincial governments
- oil and gas companies
- financial institutions and other business enterprises

with a comprehensive and objective assessment of the financial performance of the petroleum industry in Canada. This is intended to ensure that the soundest possible foundation is provided for public and private decision-making. This goal is accomplished by publishing semi-annual and annual surveys based on information received directly from oil and gas companies doing business in Canada.

The Agency was created in August 1980 and currently derives its statutory authority from the Energy Monitoring Act.[1] To provide impartiality of reporting and maintain credibility among users, the PMA was established as a separate and independent Agency with its Chairman reporting directly to the Minister of Energy, Mines and Resources.

The Act, at subsection 5(1), sets out that energy enterprises shall file, twice a year, returns providing data and information relating to:

(a) ownership and control,
(b) sources and application of funds,
(c) exploration, development, production, processing, refining and marketing,
(d) cost and revenues,
(e) deductions, credits, allowances and carry forwards provided under the Income Tax Act,
(f) the distribution and disposition of its revenues and profits,
(g) resources, reserves and properties,
(h) ownership or interest in any other enterprise,
(i) research and development programs, and
(j) other prescribed matters relating to oil and gas production, refining and marketing, and the funds derived from such activities.

Energy enterprises are defined as individuals, corporations, partnerships, trusts or organizations engaged in the exploration for, development, refining and marketing of oil and gas and having consolidated gross annual revenues or assets in excess of ten million dollars. Regulations prescribe that gross revenues and assets be determined according to accounting standards set out in the Canadian Institute of Chartered Accountants Handbook. Currently only corporations are surveyed by the Agency. Each energy corporation is required to report on a consolidated basis on the activities of corporations it controls or owns.

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(1) S.C. 1980-81-82-83, c. 112.

B. Sources of Data and Information

The data published in the Petroleum Monitoring Survey are aggregate data derived mainly from survey schedules prescribed by regulations.(1) Since part of the Agency's information gathering function falls into areas covered by Statistics Canada, a number of data sharing agreements were negotiated between the PMA and Statistics Canada under Section 11 of the Statistics Act. These agreements reduce the industry's response burden in relation to the Agency's overall information requirements. Information also flows from the PMA to Statistics Canada. Current data sharing arrangements relate to:

1. ownership and control of energy enterprises,
2. capital structure,
3. international flows of funds,
4. research and development expenditures,
5. exploration, development and capital expenditure intentions,
6. quarterly corporate financial statistics, and
7. capital expenditures and operating costs.

The first five of these involve transmission of information to PMA; the last includes information on such subjects as exploration, development and production expenditures, and royalties from PMA to Statistics Canada.

C. Coverage of Data

Industry gross revenues covered by the PMA through aggregation of returns from 124 reporting enterprises account for 91% of upstream industry revenues as determined by Statistics Canada. The remaining 9% of industry revenues accrue to firms having revenues or assets below the Agency's current reporting thresholds, but which are surveyed by Statistics Canada. The high degree of coverage of industry revenues and the inclusion of all but the smallest energy enterprises enable conclusions drawn from Agency aggregates to be applied to the industry as a whole. Degrees of coverage of other performance indicators are presented below.

COMPARISON OF PMA DATA
WITH 1986 INDUSTRY AGGREGATES

	Percentage of Industry Aggregates Covered (%)
UPSTREAM PRODUCTION REVENUES	91
UPSTREAM EXPENDITURES IN CANADA	90
PRODUCTION VOLUMES	
Crude Oil and Liquids	90
Marketable Natural Gas	87
REFINED PRODUCT SALES VOLUMES	98

(1) Currently prescribed schedules are contained in regulation SOR/86-704.

D. Comparison of Survey Results - PMA vs. Statistics Canada

The petroleum industry's financial performance is regularly compared to that of other sectors of the economy using aggregate data from Statistics Canada. Net income and rates of return information provided in Chapters 1 and 2 of this report will differ slightly from the results shown in Chapter 3 and in Appendix A-11, which are based on Statistics Canada data.

Petroleum industry data from Statistics Canada, while covering a greater number of companies than the PMA survey, exclude government business enterprises as well as the foreign activities of Canadian petroleum companies. The PMA survey covers the global activities of petroleum companies operating in Canada, including Crown corporations, provided these companies meet the minimum requirements in terms of assets and revenues. In addition, though Statistics Canada may make adjustments to company reported data, the PMA reports only on the industry's activities as they are submitted. For example, in 1983, a write-down by one large Canadian-controlled company of assets of $1 billion was treated as 'extraordinary' by Statistics Canada, whereas the Agency accepted the entry as 'ordinary', as reported by the company.

Regarding rates of return, both agencies determine return on capital employed by adding back to net income the after-tax portion of interest on long-term debt. While the PMA produces this calculation for each company individually, using the statutory tax rate on that portion of interest expense which would increase net income, the add back on Statistics Canada aggregate industry results must rely on the average effective tax rate, i.e. current taxes as a percentage of net income before taxes.

E. Ownership and Control Determination

The Agency publishes annually information on the level of Canadian ownership and control of the oil and gas industry in Canada. The methodology and sources of information underlying its analyses are summarized below.

The Agency has, in the process of control determination, based its definition on whether Canadian or foreign shareholders have potential control over a reporting enterprise's overall operations. While control is generally based on ownership of 50% or more of voting shares, it is possible for effective control to be exercised with a smaller ownership block where the majority of voting rights is widely diffused. Should the concentration of voting rights ownership be insufficient to determine control, the existence of options, key privately held shares, or interlocks of directors with related holding companies become germane to the determination of control.

For purposes of determining the industry-wide level of ownership, that percentage of the relevant yardstick which represents the ownership of voting rights by non-residents is assigned to the foreign-owned category, while that of Canadian residents is assigned to the Canadian-owned category.

The most commonly used yardsticks are upstream or total petroleum-related revenues (upstream plus downstream). Ownership and control are generally measured on gross revenues recognizing that these best reflect economic activity and that they are a stable proxy for net economic benefits over time. For example, the deduction of royalties from gross petroleum revenues would have little or no impact on the relative distribution of revenue between Canadian and foreign owners.

Other measurement bases such as assets or capital employed do exist but suffer from the deficiencies of relying upon historical 'book' values rather than current market value, and of being subject to the different accounting techniques used in the petroleum industry such as the full cost and successful efforts methods.

In the case of control, all revenues of the controlled company are assigned to the appropriate control category. Thus, regardless of the percentage ownership of voting rights by non-residents, if the company is effectively controlled by non-residents, then for statistical purposes 100% of its revenues are assigned to the foreign-controlled sector. To illustrate, several integrated companies included in this report, though all foreign controlled, have varying degrees of Canadian ownership (up to 30%). However, 100% of their revenues are allocated to the foreign-controlled sector when measuring the level of foreign control of revenues.

The Agency has access to ownership and control information collected under the Corporations and Labour Unions Returns Act (CALURA) from those enterprises which report under the Energy Monitoring Act. CALURA requires detailed disclosure of ownership information from all owners of blocks of shares equal to or greater than 5% of total voting shares. Should a reporting energy enterprise fail to file a timely return under CALURA, Regulation SOR/85-328 amending regulations under the Energy Monitoring Act, authorizes the Agency to obtain the ownership and control information directly.

F. Inter-Period Comparability of Results

Canadian Petroleum Industry Monitoring Surveys present comparisons of the current reporting period's results with those of previous comparable periods. Such comparisons are sensitive to changes in the list of reporting companies defined as the 'industry', in its analytic groups, i.e. integrateds and refiners, and oil and gas producers, and in the control status of reporting enterprises. To permit valid inter-period comparisons, the Agency consistently fixes industry group membership and control according to the reported information for the current period, and imposes that membership and control on results for the prior reporting periods.

Lists of reporting enterprises (i.e. corporations with more than $10 million in assets or sales) are updated each reporting period. Newly qualifying enterprises are added to the industry aggregates and the respective group only when results for two comparable reporting periods are available. Occasionally, enterprises exit from the industry during the current period, by acquisition or wind-up. Prior period results for both the industry and the group presented in the current period's report will reflect the exit of the former reporting enterprise: the enterprise is excluded from the current and the prior period aggregates. Should the exit result from acquisition by a reporting enterprise, the acquired enterprise's prior period results are added to those of the acquiring enterprise regardless of whether the acquired enterprise was in the same analytic group as the acquisitor.

Divestitures or acquisitions by reporting enterprises during the current period may result in an enterprise satisfying the inclusion criteria of an analytic group other than that to which it has been assigned in the prior period's Monitoring Survey. For example, where an integrated group member divested itself of its downstream operations during the current period, it would be included in either the senior or junior producer group, depending upon the facts of the matter, for the current period and with that group's aggregate results for the corresponding prior period. It is important to note that all the divesting enterprise's prior period assets and revenues, regardless of the segment of operations, are transferred to the current period analytic group to establish prior period analytic group aggregates.

Similar adjustments to industry and analytic group aggregates are made in cases where ownership switches from Canadian to foreign or vice versa. The current period nationality of ownership determines that of the prior period for purposes of inter-period comparisons.

However, in that part of the annual Monitoring Survey dealing with ownership and control, the analysis takes into account the changes in the control of the reporting companies as they occur. A listing of reporting energy enterprises appears on the inside back cover.

DOWNSTREAM EARNINGS AND INVENTORY COSTING METHODS

A. Reported Profits: FIFO vs. LIFO

The choice of FIFO vs. LIFO[1] affects the timing of reporting profits by affecting the 'cost of goods sold' which is a major deduction in arriving at net income. This is because FIFO and LIFO are alternative ways of costing the inventory on hand at the end of a reporting period. For both of these methods 'cost of goods sold' is defined as the cost of the opening inventory, plus the cost of goods purchased, less the value of the closing inventory.

When crude prices fell in the early months of 1986, the reduced cost of crude oil purchases by downstream companies resulted--under LIFO rules--in an immediate reduction in the cost of goods sold. For companies using FIFO, however, the reduced price of crude purchases is not reflected in the cost of goods sold until the existing higher cost inventory has worked its way through the system. For two identical companies facing the same crude and product prices, the company using LIFO would report greater profits during this period of falling prices than the company using FIFO. But LIFO companies would have expensed more costs in the past and shown less profit, and this when prices were rising. In a fluctuating but non-trending price environment, profits would be the same for both types of companies. However, as costs and prices in nominal terms tend to move upwards, FIFO companies will report higher profits over the long run, and accordingly will have paid more taxes than LIFO companies.

B. Canadian vs. US Profit Reports in Periods of Falling Crude Oil Prices-- First Half 1986

The above suggests that U.S.-based companies (most of which use LIFO) should have reported higher downstream profits than Canadian-based companies (which use FIFO) in the first half of 1986. This was indeed the case and is due to differences in the speed with which the fall in crude prices is reflected in the cost of goods sold.

The fact that U.S.-based companies reported significantly higher profits for the first half 1986--up by more than 200% over 1985 for seven large U.S. multinationals--indicates (other things being equal) that product prices in the U.S. fell less rapidly than the cost of goods sold. Similarly, the fact that Canadian-based companies made lower profits in early 1986 indicates that, in Canada, product prices fell more rapidly than did the cost of goods sold, i.e. that prices fell before the companies could work through their high-cost inventories.

This is not to say that product prices did fall more rapidly in Canada than in the U.S., but simply that the different costing methods used by the two countries, in the short term, can result in vastly different reported profits.

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(1) FIFO and LIFO are accounting concepts used to allocate dollar costs to sales for the purposes of income determination; these concepts do not necessarily reflect the manner in which goods physically move.

FIFO (First In, First Out): The cost of the first goods purchased or acquired is the cost assigned to the first goods sold. Therefore, the cost allocated to the inventory items on hand at the end of the period is the cost of those items most recently acquired.

LIFO (Last In, First Out): The cost of the goods most recently purchased or acquired is the cost assigned to the first goods sold. As a result the inventory on hand at the end of any period is valued at the cost attributed to the inventory at the beginning of the period. Increases in quantities during a period are valued at the cost prevailing during the time the accumulations are deemed to have occurred. Decreases in quantities are considered to have first reduced the most recent accumulations.

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C. Outlook for Effects of Crude Price Change in Competitively Related Markets

If crude prices were to stabilize at any given level, two identical companies, one using LIFO (assuming that inventory composition by product group stayed constant) and the other using FIFO, would earn identical profits once the company using FIFO had used up its high cost inventories. This company would make up the profit gap incurred when prices were falling only if crude prices were to start rising again; in that event, the company using LIFO would see the supply cost increases reflected immediately in its cost of goods sold, whereas for the company using FIFO there would be no increase in the cost of goods sold until lower cost inventories were used up.

Assuming inventory volume and main product categories within a LIFO layer remain constant, the cost which a company using LIFO attaches to its end-of-period inventory is the cost of its opening inventory (because the cost of purchases flows through to the cost of goods sold). Therefore, inventories now or in the future may be costed at prices that prevailed many years ago.

Both LIFO and FIFO accounting rules require that inventories be valued at the lower of cost and estimated realizable value. However, since 1986 prices have not come down to the level of the mid-70's, no write-down is required by LIFO companies even though 1986 prices may be 50% below year earlier levels. Only if current prices were below mid-70 levels would a company be required to take a write-down to the carrying value of its inventory. In the case of U.S.-based refiners, it appears that in many instances inventories are costed at pre-1974 prices therefore write-downs may never be required.

While Canada's downstream industry, operating under FIFO rules, showed reduced profits in early 1986 relative to 1985, profit margins began to improve toward the end of the second quarter. For 1986 as a whole gross profit margins were 15% higher than in 1985, reflecting a decline in cost of goods sold which exceeded the fall in gross revenue from refining and marketing operations. Earnings from that segment of operations rose in 1986 to $900 million from $140 million in 1985. For companies using FIFO, earnings will also rise if any increase in crude oil prices is reflected in product prices before it is reflected in the cost of goods sold.

NEW CICA GUIDELINE ON FULL COST ACCOUNTING IN THE OIL AND GAS INDUSTRY

Generally Accepted Accounting Principles (GAAP), established by the Canadian Institute of Chartered Accountants (CICA) for companies conducting business in Canada, allow two different methods of reporting for exploration and development costs in the petroleum industry: "successful efforts" and "full cost".

The successful efforts method assumes that only those exploration costs directly resulting in the discovery of proved reserves and related development costs should be capitalized and subsequently amortized on a unit of production basis as a charge against the net revenue of the producing wells in the cost centre explicitly linked to those proved reserves. Costs of unsuccessful exploration are written-off when the property is determined to possess no reserves, and other expenditures such as those for geological and geophysical studies, and land retention costs which do not directly yield proved reserves are expensed in the period incurred.

The full cost method assumes that all costs incurred in acquiring, exploring and developing properties in the search for oil and gas, whether proved reserves are found or not, should be capitalized and subsequently amortized as a charge against production revenues in a cost centre. This method defers to future periods the write-off of both successful and unsuccessful exploration costs and other expenses not directly associated with proved reserves. In the short term, the method decreases expenses as compared to the successful efforts method and consequently raises earnings. Over the longer term, the full cost firm's costs are equal to those of successful efforts, but due to its higher cost base and the uncertainty about future production levels, productivity and prices, the method may result in a significant overstatement of asset values unless periodic corrections are made to the capitalized costs carried forward.

In its new guideline, which became effective in September 1986, the CICA Accounting Standards Committee did not attempt to resolve whether full cost, successful efforts or some other accounting method is preferable. The variations in the application of the full cost accounting method had become so great however, that the guideline was developed to "narrow the range of acceptable alternatives". The guideline works in two ways; its specifies the costs which should be capitalized and amortized, and limits, through a 'ceiling test' calculation, the unamortized cost that can be retained on companies' balance sheets.

The guideline clarifies that the capitalized costs subject to amortization are to be depleted or depreciated on a unit of production basis, and should include:

(a) all exploration and development costs (other than the costs of unproved properties and excluded major development projects) less accumulated depletion and depreciation,

(b) estimated future costs of developing proved reserves, and

(c) estimated dismantlement and abandonment costs, net of salvage values.

The costs of proved properties should be included even if immediate production or marketing is not possible, as should dry hole costs and the costs of impaired properties, i.e. those showing or believed to possess smaller reserves than initially expected. The transfer of the costs of acquiring, holding and exploring unproved properties to capitalized costs subject to depletion and depreciation charges should occur regularly as reserves are proved or properties are determined to be impaired. Provision for depletion and depreciation is to be determined on a consolidated basis across all cost centres each time annual or quarterly financial statements are issued.

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The ceiling test[1] is a cost recovery test which permits financial statement users to assume that no future losses will result from the production of presently held proved reserves and the exploration and development or sale of unproved properties and major development projects, if all current estimates such as for prices, productivity, production levels, and future development costs used in the preparation of the financial statement are proven accurate by future events.

The amendments to the ceiling test suggested by the guideline dealt with the prices used to calculate future net revenue, and the definition of cost centres.

Firstly, whereas until now the prices used in estimating future net revenue from proved reserves ranged from current prices to estimates of future prices expected by reservoir evaluators, the guideline stipulates that the industry should use the price as of the measurement date (date of the balance sheet) or the average price for a period not exceeding 12 months prior to any one of the measurement dates, the date of issue of financial statements, or the date of public announcement of earnings. If a price other than that prevailing on the measurement date is used, the price used should be disclosed as should any write-off which would have resulted had the measurement date price been used.

Secondly, prior to the guideline, wide variation in the definition of 'cost centre' was evident among practitioners of full cost accounting methods, and seriously limited comparability of financial statements. Definitions of cost centres previously ranged from an area of a country, to groupings of countries, to the entire world. Such definitions allowed companies to carry properties, the capitalized cost of which (for example, in regions or countries where finding costs were higher) exceeded future net revenue because the ultimately recoverable amount at the enterprise level exceeded total capitalized cost when future revenues from properties in regions or countries having lower finding costs were included. The CICA guideline requires the cost centre of a full cost company to be an enterprise's oil and gas activities within the geographical boundaries of a country and there is to be only one cost centre for each country.

Most Canadian-controlled companies use the full cost method while those in Canada which are foreign controlled usually use the successful efforts method. Full cost companies in Canada, during 1986, were adversely affected by the fall in crude oil prices and the consequent reduction of asset values, in turn requiring write-offs in accordance with the guideline.

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(1) The ceiling test is used to limit the aggregate capitalized cost which may be carried forward, and amortized against future net revenue. The test has two components. The 'cost centre ceiling test' compares, for each cost centre, the amount at which the properties are capitalized, to the future net revenue plus the cost of major development projects and unproved properties. Any excess is written-off to expense. The second component, the 'enterprise ceiling test' compares, for all cost centres, the net book value of properties less deferred income taxes to the after tax ultimately recoverable amount. Any excess is allocated between cost centres and written-off as an after tax charge. The pre-tax amounts to be written-off are also to be deducted from the net book value of properties and deferred income taxes.

REPORTING ENERGY ENTERPRISES

Aberford Resources Ltd.
AGIP Canada Ltd.
Alberta Energy Company Ltd.
Alberta Oil Sands Equity
Altana Exploration Company
Amerada Minerals Corporation of Canada Ltd.
American Eagle Petroleums Ltd.
American Trading and Production Corporation
Amoco Canada Petroleum Company Ltd.
Anadarko Petroleum Of Canada Ltd.
Anderson Exploration Ltd.
Asamera Inc.
AT&S Exploration Ltd.
ATCOR Ltd.
Barnwell Of Canada, Limited
Bonanza Oil and Gas Ltd.
Bow Valley Industries Limited
BP Canada Inc.
Bralorne Resources Limited
Canada Northwest Energy Limited
Canadian General Electric Company Limited
Canadian Hunter Exploration Ltd.
Canadian-Montana Gas Company Limited
Canadian Occidental Petroleum Ltd.
Canadian Roxy Petroleum Ltd.
Canadian Superior Oil Ltd.
Canadian Worldwide Energy Limited
Canterra Energy Ltd.
Carlyle Energy Ltd.
Champlin Canada Ltd.
* Chevron Canada Limited
Chevron Canada Resources Limited
Chevron Standard Limited
Chieftain Development Co. Ltd.
Columbia Gas Development Of Canada Ltd.
Conwest Exploration Company Limited
Cooperative Energy Development Corporation
Coseka Resources Limited
Czar Resources Ltd.
DeKalb Petroleum Corporation
Denison Mines Limited
Diamond Shamrock Exploration Of Canada, Ltd.
Dome Petroleum Limited
Dorset Energy Corporation
Drummond Oil & Gas Ltd.
Dynamar Energy Limited
Dynex Petroleum Ltd.
Encor Energy Corporation Ltd.
Enron Oil Canada Ltd.
* Federated Co-operatives Limited
Forest Oil Corporation (Canada Division)
General American Oils, Ltd.
Gulf Canada Corporation
Hamilton Brothers Canadian Gas Company
Harvard International Resources Ltd.
Home Oil Company Ltd.
* Husky Oil Ltd.
* Imperial Oil Limited
Inter-City Gas Corporation
Inverness Petroleum Ltd.
* Irving Oil Limited
J.M. Huber Corporation
Kerr-McGee Corporation
Koch Exploration Canada, Ltd.
LL&E Canada Ltd.
Luscar Limited
Maligne Resources Limited
Mark Resources Inc.
Mobil Oil Canada, Ltd.
* Mohawk Oil Co. Ltd.
Murphy Oil Company Ltd.
Norcen Energy Resources Limited
North Canadian Oils Limited
Northcor Energy Ltd.
Novalta Resources Ltd.
Nova Scotia Resources Limited
Numac Oil & Gas Ltd.
Oakwood Petroleums Ltd.
Ocelot Industries Ltd.
Omega Hydrocarbons Ltd.
Onexco Oil & Gas Ltd.
Page Petroleum Ltd.
Paloma Petroleum Ltd.
Panarctic Oils Ltd.
PanCanadian Petroleum Limited
Parkland Industries Ltd.
Pembina Resources Limited
Pennzoil Petroleums Limited
* Petro-Canada Inc.
Petrorep (Canada) Ltd.
* Petrosar Limited
Placer CEGO Petroleum
Poco Petroleums Ltd.
Precambrian Shield Resources Limited
Ranchmen's Resources Ltd.
Ranger Oil Limited
Renaissance Energy Ltd.
Roan Resources Limited
Saskatchewan Oil & Gas Corporation
Sceptre Resources Limited
* Shell Canada Limited
Shell Explorer Limited
SOQUIP
Star Oil & Gas Ltd.
Sulbath Explorations Ltd.
Sulpetro Limited
* Suncor Inc.
TCPL Resources Ltd.
* Texaco Canada Inc.
Thomson Canada Petroleum Limited
Tintagel Energy Corporation
Total Petroleum (North America) Ltd. - Canadian Division
Trans-Canada Resources Ltd.
Tricentrol Oils Limited
Trillium Exploration Corporation
Trilogy Resources Corporation
Tripet Resources Limited
* Turbo Resources Limited
* Ultramar Canada Inc.
Ultramar Oil and Gas Canada Limited
United Canso Oil & Gas Ltd.
Universal Explorations (83) Limited
Unocal Canada Ltd.
Voyager Energy Company
Wainoco Oil & Gas Limited
Webb International Minerals Inc.
Westar Petroleum Ltd.
Westburne Petroleum & Minerals Ltd.
Westcoast Petroleum Ltd.
Western Decalta Petroleum (1977) Limited
Westmin Resources Limited

* Denotes companies included in group of 'Integrateds and Refiners'.
All other companies belong to the category of 'Oil and Gas Producers'